DOCUMENT RESUME

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IDENTIFIERS	*Income Taxes; Internal Revenue Service

ABSTRACT

This redesigned version of a high school curriculum on understanding taxes contains 6 units with 12 lessons. The set of video, print, and software lessons is designed to teach students about the United States tax system through integrating the materials in a number of different classrooms: history, economics, math, consumer education, government, civics, business education. A chart indicates classes for primary and secondary usage. The table of contents shows which seven lessons have video and which one lesson has software components. Most lessons are designed to be taught in a single class hour. Each unit lesson contains some or all of the following: purpose; objectives; required materials; key terms; and suggestions for teaching activities organized in three parts: opening, developing, and concluding the lesson. In these sections, the left-hand column presents actual teaching suggestions--questions and instructions for activities; the right-hand column contains possible student responses. An extension section suggests activities for further research. Reproducible handouts are provided. The six units cover these topics: understanding one's role as a taxpayer, understanding tax forms, understanding state and local taxes, understanding how taxes evolve, understanding fairness issues, and understanding the impact of taxes. Other contents are as follows: glossary of tax terms, user's manual for diskettes, and addresses and telephone numbers for the Internal Revenue Service Taxpayer Education Coordinators, with ordering information. (YLB)

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ED 364 759

UNDERSTANDING

TAXES

U.S. DEPARTMENT OF EDUCATION
Office of Educational Research and Improvement
EDUCATIONAL RESOURCES INFORMATION CENTER (ERIC)

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CE 065 331

DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
WASHINGTON, D.C. 20224

Dear Educator:

Welcome to the redesigned Understanding Taxes Teacher's Resource Package for high school students.

Although we have not changed the basic concept of the program as an introduction to taxes, we have made improvements to both the contents and the packaging. We believe they will enhance your teaching about the history, politics and economics of our nation's tax system and how to prepare basic Forms W-4, 1040EZ, and 1040A. (Please note that the forms contained herein are marked "proof copy" as they may be subject to changes occurring later in the year; if changes do occur, this will not affect your teaching of the subject matter).

Among the revised and supplemental materials are rescripted video programs, new and expanded lesson plans and activities, and a user's guide for the software supplement. For improved accessibility to the contents, the vinyl binder which houses the materials has been converted to a three-ring, looseleaf format and there is a more secure holder for the video programs.* A new artwork theme and illustrations complete the program's new look. As before, the software, which leads students through the process of completing the tax forms, is for use with IBM and Apple II-compatible computers. However, if you do not have a computer, this will not interfere with teaching the program in your classroom.

All materials are designed for integrating in a number of different classrooms: history, economics, math, consumer education, government, civics, business education, and etc. We will continue our practice of updating them with new tax law changes at the end of each year, beginning in December of 1994. (Those who are on the mailing list will automatically receive the yearly changes, along with instructions on how to incorporate them in the Teacher's Resource Package).

Finally, to help us better serve your needs and ensure that you are receiving the materials, **PLEASE LET US KNOW AS SOON AS POSSIBLE, WHENEVER ANY OF THE FOLLOWING CIRCUMSTANCES OCCUR. (COMPLETE THE APPROPRIATE BOX ON THE ENCLOSED**

Dear Educator, con't.

UNDERSTANDING TAXES HIGH SCHOOL PROGRAM ORDER FORM (FORM 1742) AND MAIL IT TO YOUR NEAREST IRS OFFICE SHOWN ON THE ENCLOSED LIST OF ADDRESSES AND TELEPHONE NUMBERS).

1) ANY CHANGES TO YOUR MAILING LABEL

2) YOU ARE RECEIVING MORE THAN ONE TEACHER'S RESOURCE PACKAGE

3) YOU ARE NO LONGER USING THE TEACHER'S RESOURCE PACKAGE AND WISH TO BE DELETED FROM THE MAILING LIST.

THE ABOVE INFORMATION IS VERY IMPORTANT TO US!

Remember, should you have any questions or require any assistance with the Understanding Taxes High School Program, your local Taxpayer Education Coordinator would be pleased to hear from you either by telephone or in writing.

We wish for you and your students a most successful school year.

Sincerely,

Stephen Buckles
President,
National Council on
Economic Education

Michael F. Sullivan
Executive Director,
Agency for
Instructional
Technology

Deborah S. Decker
Assistant Commissioner
(Taxpayer Services)
Internal Revenue Service

Enclosure

*** Please note that we were unable to produce two of the nine videos this year. However, should they be produced in the future, the second video compartment is reserved for their use.**

UNDERSTANDING Taxes

Table of Contents

Letter to Educators

Matrix

To the Teacher

Units and Lessons

Unit 1: Understanding Your Role as a Taxpayer

Lessons:

1 Income Tax and You (Video A)
2 Taxpayer Rights and Responsibilities

Unit 2: Understanding Tax Forms

Lesson:

3 From W-4 to 1040A (Software)

Unit 3: Understanding State and Local Taxes

Lesson:

4 State and Local Taxes

Unit 4: Understanding How Taxes Evolve

Lessons:

5 Evolution of Our Federal Tax System (Video B)
6 Making Federal Tax Laws (Video C)

Unit 5: Understanding Fairness Issues

Lessons:

7 Taxes Affect Different Income Groups (Video D)
8 Taxes...What Is Fair? (Video E)

Unit 6: Understanding the Impact of Taxes

Lessons:

9 Taxes Raise Revenue (Video F)
10 Taxes...Can They Be Shifted? (Video G)
11 Taxes Influence Behavior
12 Taxes Involve Conflicting Goals

Glossary of All Tax Terms Used in Package

Software Diskettes (2) for IBM and Apple II-Compatible Computers

User's Manual for Software Diskettes

Videocassette Containing Seven 15-20 Minute Video Programs

UNDERSTANDING **Taxes**

Use in Various Classes

		History	Civics	Economics	Consumer Education	Business Education
1.	**Understanding Your Role as a Taxpayer** Income Tax and You (Video A)	P	P	P	P	P
2.	Taxpayer Rights and Responsibilities	S	S	S	P	P
3.	**Understanding Tax Forms** From W-4 to 1040A (Software)	S	S	S	P	P
4.	**Understanding State and Local Taxes** State and Local Taxes	S	P	P	S	S
5.	**Understanding How Taxes Evolve** Evolution of Our Federal Tax System (Video B)	P	S	S	S	S
6.	Making Federal Tax Laws (Video C)	S	P	S	S	S
7.	**Understanding Fairness Issues** Taxes Affect Different Income Groups (Video D)	S	P	P	S	S
8.	Taxes...What Is Fair? (Video E)	S	P	P	S	S
9.	**Understanding the Impact of Taxes** Taxes Raise Revenue (Video F)	S	P	P	S	S
10.	Taxes...Can They Be Shifted? (Video G)	S	S	P	S	S
11.	Taxes Influence Behavior	S	S	P	S	S
12.	Taxes Involve Conflicting Goals	S	P	P	S	S

P = Primary Usage
S = Secondary Usage

Addresses and Telephone Numbers for IRS Taxpayer Education Coordinators

Unless otherwise noted, telephone numbers are not toll free and will involve long distance charges to callers outside of the local calling area. Contacts by mail should be made to the attention of the *"Taxpayer Education Coordinator."*

ALABAMA
500 22nd St., S., Stop 117
Birmingham, AL 35233
(205) 731-0403
Toll Free 1 (800) 829-1040

ALASKA
949 E. 36th Ave.
Anchorage, AK 99508-4328
(907) 271-6231
Toll Free 1 (800) 829-1040

ARIZONA
210 E. Earll
Stop 6610-PX
Phoenix, AZ 85012-2623
(602) 207-8618
Toll Free 1 (800) 829-1040

ARKANSAS
700 West Capitol
Stop 6030
Little Rock, AR 72201-3271
(501) 324-5685
Toll Free 1 (800) 829-1040

CALIFORNIA
Los Angeles
300 N. Los Angeles St.
Room 5202
Los Angeles, CA 90012
Los Angeles City Area
(213) 894-4574
Toll Free 1 (800) 829-1040

San Francisco
1221 Broadway, 6th Fl.
Oakland, CA 94612-1808
(510) 273-4233
Toll Free 1 (800) 829-1040

Laguna Niguel
Chet Holifield Fed. Bldg.
P.O. Box 30210
Laguna Niguel
CA 92607-0210
(714) 643-4060
Toll Free 1 (800) 829-1040

Sacramento
P.O. Box 2900, Stop SA5650
Sacramento, CA 95812
(916) 978-4083
Toll Free 1 (800) 829-1040

San Jose
P.O. Box 100
Stop HQ-6300
San Jose, CA 95113-2397
(408) 291-7114
Toll Free 1 (800) 829-1040

COLORADO
600 17th Street
Stop 6610-DEN
Denver, CO 80202
(303) 844-3340
Toll Free 1 (800) 829-1040

CONNECTICUT
135 High Street, Stop 115
Hartford, CT 06103-1185
(203) 240-4149
Toll Free 1 (800) 829-1040

DELAWARE
P.O. Box 28
Wilmington, DE 19899
(302) 573-6270
Toll Free 1 (800) 829-1040

DISTRICT OF COLUMBIA
31 Hopkins Plaza
Room 615A
Baltimore, MD 21201
(410) 962-2222
Toll Free 1 (800) 829-1040

FLORIDA
Jacksonville
400 W. Bay St., Stop 6450
Jacksonville, FL 32202-0045
(904) 232-2514
Toll Free 1 (800) 829-1040

Ft. Lauderdale
One N. University Dr.
Stop 6030
Building A, Room 270
Ft. Lauderdale
FL 33324-2019
(305) 424-2439
Toll Free 1 (800) 829-1040

GEORGIA
Peachtree Summit Bldg.
401 W. Peachtree St., N.W.
Room 526, Stop 902D
Atlanta, GA 30365
(404) 331-3808
Toll Free 1 (800) 829-1040

HAWAII
300 Ala Moana Blvd. #50089
Honolulu, HI 96850-4992
(808) 541-3329
Toll Free 1 (800) 829-1040

IDAHO
550 W. Fort St., Box 041
Boise, ID 83724
(208) 334-9153
Toll Free 1 (800) 829-1040

ILLINOIS
Chicago
P.O. Box 1132, DPN 7-5
Chicago, IL 60604-1132
(312) 886-4609
Toll Free 1 (800) 829-1040

Springfield
P.O. Box 19201, Stop 8
Springfield, IL 62794-9201
(217) 492-4386
Toll Free 1 (800) 829-1040

INDIANA
P.O. Box 44211
Stop 60, TX:ED
Indianapolis, IN 46244
(317) 226-6543
Toll Free 1 (800) 829-1040

IOWA
210 Walnut St.
Stop 30-2
Des Moines, IA 50309-2109
(515) 284-4870
Toll Free 1 (800) 829-1040
Ext. 4870

KANSAS
271 W. 3rd St.
Stop 6610-WIC
Wichita, KS 67202
(316) 291-6610
Toll Free 1 (800) 829-1040

KENTUCKY
P.O. Box 1216, Stop 531
Louisville, KY 40201
(502) 582-6259
Toll Free 1 (800) 829-1040

LOUISIANA
Stop 21
600 S. Maestri Place
New Orleans, LA 70130
(504) 558-3011
Toll Free 1 (800) 829-1040

MAINE
P.O. Box 787, Stop 6601
Augusta, ME 04302-0787
(207) 622-8328
Toll Free 1 (800) 829-1040

MARYLAND
31 Hopkins Plaza
Room 615A
Baltimore, MD 21201
(410) 962-2222
Toll Free 1 (800) 829-1040
Ext. 2222

MASSACHUSETTS
JFK Federal Building
P.O. Box 9088
Boston, MA 02203
(617) 424-5310
Toll Free 1 (800) 829-1040

MICHIGAN
P.O. Box 330500, Rm. 1196
Detroit, MI 48232-6500
(313) 226-3674
Toll Free 1 (800) 829-1040

MINNESOTA
316 North Robert Street
Stop 6500
St. Paul, MN 55101-1474
(612) 290-3320
Toll Free 1 (800) 829-1040

MISSISSIPPI
100 W. Capitol Street
Rm. 101A, Stop 30
Jackson, MS 39269
(601) 965-4142
Toll Free 1 (800) 829-1040

MISSOURI
P.O. Box 66784, Stop 612
St. Louis, MO 63166
(314) 539-3660
Toll Free 1 (800) 829-1040

UNDERSTANDING TAXES

High School Program Order Form

You do NOT need to complete this form if you are already on our address data base and are receiving your Annual Revisions as scheduled and you have not changed your name or address.

Check the appropriate box below.

New Subscribers *(If you check the New Subscribers or Annual Revision box, please fill out the New Name and Address section to be added to our address data base.)*

☐ Add my name and address to the UNDERSTANDING TAXES High School Program address data base. I understand that I will receive the Teacher's Resource Package and the current Annual Revision (if Applicable). Also, I will receive future Annual Revisions to keep my Teacher's Resource Package current.

☐ **Annual Revisions -** I have my Teacher's Resource Package. Send me the current and future Annual Revisions only.

Change / Remove Name or Address

☐ Update the name and/or address as indicated. (If you check this box, please fill out both the New Name and Address and the Old Name and Address sections.)

☐ Remove the name and address indicated in the Old Name and Address section.

New Name and Address:

Name
School
School Street Address (Do NOT give a PO Box)
City State Zip Code
Telephone Number (include area code)

Old Name and Address:

Name
School
School Street Address (Do NOT give a PO Box)
City State Zip Code
Telephone Number (include area code)

Have questions? Need additional assistance with the High School Program? Call or write the nearest IRS Taxpayer Education Coordinator on the attached listing.

MONTANA
Federal Building, 301 S. Park
Drawer 10016
Helena, MT 59626-0016
(406) 449-5375
Toll Free 1 (800) 829-1040

NEBRASKA
106 South 15th, Stop 27
Omaha, NE 68102-1676
(402) 221-3501
Toll Free 1 (800) 829-1040

NEVADA
4750 W. Oakey Blvd.
Las Vegas, NV 89102
(702) 455-1029
Toll Free 1 (800) 829-1040

NEW HAMPSHIRE
80 Daniel Street
Portsmouth, NH 03801
(603) 433-0519
Toll Free 1 (800) 829-1040

NEW JERSEY
P.O. Box 6975
Edison, NJ 08818
(908) 417-4075
Toll Free 1 (800) 829-1040

NEW MEXICO
517 Gold Ave., S.W.
Stop 6610-ALB
Albuquerque, NM 87102
(505) 766-2537
Toll Free 1 (800) 829-1040

NEW YORK
Manhattan
P.O. Box 3036
Church Street Station
New York, NY 10008-3036
(212) 264-3310
Brooklyn
10 Metrotech Ctr.
625 Fulton St.
Brooklyn, NY 11202-0013
(718) 488-2908
Albany
Leo O'Brien Federal Bldg.
Clinton & N. Pearl Sts.
Room 421
Albany, NY 12207-2378
(518) 472-3636
Buffalo
P.O. Box 606
Buffalo, NY 14225-0606
(716) 686-4779
Toll Free 1 (800) 829-1040

NORTH CAROLINA
320 Federal Place, Rm. 120
Greensboro, NC 27401
(919) 378-2193
Toll Free 1 (800) 829-1040

NORTH DAKOTA
P.O. Box 2461
Fargo, ND 58108-2461
(701) 239-5105
Toll Free 1 (800) 829-1040

OHIO
Cincinnati
P.O. Box 3459
Cincinnati, OH 45201
(513) 684-2828
Toll Free 1 (800) 829-1040
Cleveland
P.O. Box 99184
Cleveland, OH 44199
(216) 522-3414
Toll Free 1 (800) 829-1040

OKLAHOMA
55 N. Robinson
Stop 6610-OKC
Oklahoma City, OK 73102
(405) 297-4125
Toll Free 1 (800) 829-1040

OREGON
P.O. Box 2709
Portland, OR 97208
(503) 326-6565
Toll Free 1 (800) 829-1040

PENNSYLVANIA
Philadelphia
600 Arch St., Rm. 6424
Philadelphia, PA 19106
(215) 597-0512
Toll Free 1 (800) 829-1040
Pittsburgh
P.O. Box 799, Rm. 1117
Pittsburgh, PA 15230-0799
(412) 644-6504
Toll Free 1 (800) 829-1040

RHODE ISLAND
P.O. Box 6627
Providence, RI 02940
(401) 528-4276

SOUTH CAROLINA
Strom Thurmond Fed. Bldg.
1835 Assembly St., MDP16
Columbia, SC 29201
(803) 253-3031
Toll Free 1 (800) 829-1040

SOUTH DAKOTA
P.O. Box 370
Aberdeen, SD 57402-0370
(605) 226-7230
Toll Free 1 (800) 829-1040

TENNESSEE
801 Broadway, MDP 46
Nashville, TN 37203-3836
(615) 736-2280
Toll Free 1 (800) 829-1040

TEXAS
Austin
300 E. 8th Street
Stop 6610-AUS
Austin, TX 78701
(512) 499-5439
Toll Free 1 (800) 829-1040
Houston
8701 S. Gessner
Stop 6610 HAL
Houston, TX 77074
(713) 773-7070
Toll Free 1 (800) 829-1040
Dallas
1100 Commerce Street
Stop 6610-DAL
Dallas, TX 75242
(214) 767-1428
Toll Free 1 (800) 829-1040

UTAH
465 South 400 East St.
Stop 6610-SLC
Salt Lake City, UT 84111
(801) 524-6095
Toll Free 1 (800) 829-1040

VERMONT
Courthouse Plaza
199 Main Street
Burlington, VT 05401-8345
(802) 860-2089

VIRGINIA
P.O. Box 10049, Rm. 5223
Richmond, VA 23240
(804) 771-2289
Toll Free 1 (800) 829-1040

WASHINGTON
915 Second Ave., MS-425
Seattle, WA 98174
(206) 220-5776
Toll Free 1 (800) 829-1040

WEST VIRGINIA
P.O. Box 1138, Stop 2019
Parkersburg, WV 26102
(304) 420-6612
Toll Free 1 (800) 829-1040
Ext. 6612

WISCONSIN
M-132
310 W. Wisconsin Ave.
Milwaukee, WI 53203-2221
(414) 297-3302
Toll Free 1 (800) 829-1040

WYOMING
308 W. 21st Street
Stop 6610-CHE
Cheyenne, WY 82001
(307) 772-2325
Toll Free 1 (800) 829-1040

Outside 50 States & Foreign Countries:

GUAM
Taxpayer Service Division
PDN Building, Room 902
Agana, Guam 96910
(671) 472-7471

PUERTO RICO
Mercantil Plaza Bldg., GF
Taxpayer Service Division
Office GF-05
Avenida Ponce de Leon
Hato Rey, PR 00918
(809) 766-6305
Toll Free 1 (800) 829-1040

Other:

OFFICE OF ASSISTANT COMMISSIONER (INTERNATIONAL)
950 L'Enfant Plaza
Attn: IN:C:TPS
Washington, DC 20024
(202) 874-1332

Department of the Treasury
Internal Revenue Service
Form 1742 (Rev. 7-93)
Catalog Number 17697J

Return Address *(Please Print)*

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Place
Stamp
Here

Complete both sides and mail to the nearest IRS office listed on this form.

To: Internal Revenue Service

____

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Attention: Taxpayer Education Coordinator

UNDERSTANDING **Taxes**

TO THE TEACHER

UNDERSTANDING **Taxes**, a set of video, print, and software lessons, has been developed for the Internal Revenue Service for teaching your students about the U.S. tax system. All of the materials are designed to be freely reproduced by users. You are encouraged to make as many copies of the print materials, videos, and software as you need.

There are twelve lessons in all, seven of them accompanied by video programs. The "Table of Contents" shows which lessons have video or software components. Most lessons introduce students to important concepts relating to our tax system. Lesson 3, however, helps students understand the role of different tax forms and provides practice in filling them out. This lesson is accompanied by software that provides opportunities for self-instruction in filling out the forms.

Most of the lessons are designed to be taught in a single class hour, with extension activities suggested for out-of-class research or further classroom work. However, two of the lessons may take longer. Lesson 3, "From W-4 to 1040A," with its software component may require three to five days to teach. Lesson 5, "Evolution of Our Federal Tax System," has a video component and includes suggested activities for two days of teaching, including alternatives for social studies and economics/consumer education classes.

All of the lessons follow the same structure. You are first provided with a statement of the purpose of the lesson and the teaching objectives.

A list of required materials follows. In most cases these are limited to reproducible handouts, which are printed together at the end of the lesson guide. You may prefer to display many of these using an overhead projector instead of duplicating them for students. In a few cases, the same reproducible handout may be used for two different lessons.

A list of key terms for the lesson follows. In most cases these terms and definitions are reprinted on a reproducible handout, "Glossary of Key Terms," that accompanies many of the lessons. In some cases, you may prefer to write the terms on the board instead of reproducing them. In addition, the terms from all of the lessons are grouped in the "Glossary of All Tax Terms Used in Package" at the end of this guide. If you are planning to teach several ***Understanding Taxes*** lessons, you may prefer to duplicate the entire glossary instead of the separate "Glossary of Key Terms" handouts that accompany many of the lessons.

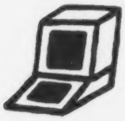
Suggestions for teaching activities are organized in three parts: "Opening the Lesson," "Developing the Lesson," and "Concluding the Lesson." In these sections, the presentation appears in two columns. The left-hand column presents actual teaching suggestions—questions and instructions for activities. The right-hand column contains possible student responses to questions, handouts, and other activities.

In the "Opening the Lesson" section, students are encouraged to recall and reflect on what they know or have heard about different issues relating to taxes. The "Developing the Lesson" section introduces new facts and concepts. In this section the video may be shown when one accompanies the program, or software use may be encouraged. Various activities may be suggested, many making use of the reproducible handouts. The "Concluding the Lesson" section suggests ways to help students assimilate and practice what they have learned, frequently through a game, role-playing, or similar activity.

"Extending the Lesson" suggests activities for further research, either by using library materials or through contacts with people in the community.

Throughout all the lessons, graphic icons are used so that you can see immediately what kind of activity is being suggested. The graphic icons and their meanings are as follows:

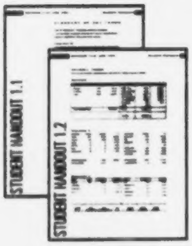
[video cassette] video program



[computer] software

[teacher and class] class activity

[book] homework, research, or out-of-class activity



In addition, a small replica of each of the reproducible handouts appears wherever its use is suggested.

We hope you will find these materials easy to work with and helpful additions to your teaching resources.

UNDERSTANDING Your Role as a Taxpayer

Lessons:

- Income Tax and You (Video A)
- Taxpayer Rights and Responsibilities

GLOSSARY OF KEY TERMS

Form W-4 (Employee's Withholding Allowance Certificate)
A form that helps an employer determine how much to withhold from an employee's paycheck for federal income tax purposes.

Personal Income Tax
A tax based on the amount of taxable income that people receive annually. Taxable income is less than total income because of exemptions and deductions.

Public Goods and Services
A public good is one that cannot be withheld from those who don't pay for it, and one that may be "consumed" by one person without reducing the amount of the product available for others. Examples include national defense, street lights, and roads and highways. Public services include welfare programs, law enforcement, monitoring and regulating of trade and the economy, and education.

Tax Liability (or Total Tax Bill)
The amount of tax that must be paid. Taxpayers meet (or pay) their federal income tax liability through withholding, estimated tax payments, and payments attached to the tax forms they file with the government.

Voluntary Compliance
A system of compliance that relies on individual citizens to report their income freely and voluntarily, calculate their tax liability correctly, and file a tax return on time.

Withholding ("Pay-as-you-earn" Taxation)
Money that employers withhold from employees' paychecks. This money is deposited for the government. It will be credited against the employees' tax liability when they file their returns. Employers withhold money for federal income taxes, federal social security taxes, and state and local income taxes in some states and localities.

PAYROLL TAXES

Here are some examples of paycheck stubs that show how different taxes are withheld.

Example 1

EARNINGS	HOURS	AMOUNT	DEDUCTION	CURRENT	YEAR TO DATE
Regular	70.00	846.16	FICA Tax	69.06	494.17
Overtime	14.75	267.57	Medicare Tax	16.15	115.58
Total	84.75	1,113.73	Federal Tax	116.17	880.89
			NY State Tax	52.40	347.68
			NY City Tax	27.05	183.34
			Disability	1.20	9.60
			LTD	1.00	
Year to Date Gross		$7,970.53	Total	$283.03	
			Net Pay	$830.70	

Example 2

EARNINGS	HOURS	AMOUNT	YTD	DEDUCTION	AMOUNT	YTD
Regular	40.00	554.00	7,645.20	Federal W/H	72.95	1,054.81
Overtime	6.00	124.65	415.50	FICA	42.08	545.80
Holiday	.00	.00	271.60	MEDICARE	9.84	127.65
Sick Pay	.00	.00	110.80	E. I. C.	.00	3.05
Bonus	.00	.00	249.32	WI State W/H	42.34	505.83
Vacation Pay	.00	.00	110.80	Health Insurance	60.00	480.00
				Credit Union	100.00	1,500.00
GROSS EARNINGS:		678.65	8,803.22	TOTAL DEDUCT:	327.21	4,211.04
NET EARNINGS:		351.44		ALLOCATED TIP:	.00	128.53

Example 3

EARNINGS	HRS/UNIT	CURRENT AMOUNT	YEAR TO DATE	DEDUCTIONS	CURRENT AMOUNT	YEAR TO DATE
SALARY	75.00	1007.31	23,961.12	FICA	62.45	1576.94
OVERTIME 1		0.00	0.00	FEDERAL WH	154.16	3823.59
OVERTIME 2		0.00	0.00	INDIANA	34.25	864.89
MISC #3		0.00	1475.00	MONROE CO	10.07	242.35
				MEDICARE	14.61	368.83

26,190.00	1007.31	275.54	731.77	25,436.12	6,876.60	18,559.52
PAY RATE	CURRENT EARNINGS	CURRENT DEDUCTIONS	NET PAY	YTD EARNINGS	YTD DEDUCTIONS	YTD NET PAY

EXAMINATION OF RETURNS, PENALTIES, AND REFUNDS

The following information is extracted from tables in the IRS 1991 Annual Report (Department of the Treasury, Internal Revenue Service, Publication 55). Study the figures and then, using a calculator and rounding off numbers further when it's helpful, answer the following questions:

1. Using the figures in Table 1, calculate the percentage of returns examined in each of the four categories.
2. Using the figures in Table 2, find the proportion of examinations that had a positive outcome (refund or no change) to those that had a negative outcome (additional tax proposed).
3. Using the figures in Table 3, determine the average amount of penalty on each type of return. Which type of examined tax return received the greatest amount of average penalty per return examined?
4. Using the information in Table 4, determine the total amount recommended that the federal government refund to filers of the three types of returns listed. Which type of return yielded the highest amount of refund per return filed?

Table 1

Number of returns filed (top number) **and examined** (bottom number) (numbers rounded off)

	TOTAL*	INDIVIDUAL	CORPORATION	EMPLOYMENT
United States	203,713,000	114,058,000	4,354,000	28,516,000
	1,391,000	1,123,000	63,400	79,900

Table 2

Examination Results (by number of returns—numbers rounded)

Additional tax proposed	941,700
Refunds proposed	98,300
No adjustments proposed	351,100
Total	1,291,000

Table 3

Net Civil Penalties (Numbers and dollars in thousands—add three zeros to numbers and amounts below for actual numbers in IRS report; numbers rounded)

	NUMBER	TOTAL PENALTY AMOUNTS
Total*	29,379	$6,521,000
Individual	19,822	3,528,000
Corporation	610	708,000
Employment	8,200	1,702,000

Table 4

Examinations Resulting in Refunds (Numbers and dollars in thousands—add three zeros to numbers and amounts below for actual numbers in IRS report; numbers rounded)

	NUMBER OF RETURNS	TOTAL AMOUNTS OF REFUND RECOMMENDED
Individuals	59	$224,000
Corporations	4.2	507,000
Employment	22.7	669,000

*Totals include other types of returns not listed here.

LESSON SUMMARY
INCOME TAX AND YOU

PURPOSE

To help students understand the importance of voluntary compliance with income tax laws in a constitutional democracy and the consequences of noncompliance for citizens and society.

OBJECTIVES

After viewing the video program and participating in the suggested activities, students will be able to:

- describe how income taxes provide revenue for goods and services that benefit the general public
- identify the rights, opportunities, and obligations of citizens to participate in the formulation and enforcement of tax policy
- demonstrate understanding of the illegality and consequences of noncompliance

POINTS MADE IN VIDEO PROGRAM	EXPLANATION OR BACKGROUND
1. When Julio, a high school student, expressed surprise at the amount of deductions from his first paycheck from his part-time job, Gordon, Julio's boss, showed him the W-4 form he had filled out.	The information on the W-4 form is the basis for determining how much income tax should be withheld from a paycheck. On the accompanying worksheet, Julio figured the appropriate withholding allowances to put on the W-4. Some deductions—those for FICA and Medicare—are required by law.
2. Britt and Torie, Julio's co-workers, thought that they could avoid declaring cash income, including tips.	Because those who pay tips do not appear to keep written records of these transactions, Britt and Torie assume that the IRS will not know about such income.
3. Julio's father, and later, a lawyer who was a guest at the hotel where Julio worked, explained the importance of declaring tips and other cash as income.	Under the system of voluntary compliance, it is taxpayers' responsibility to declare all of their income. Unless each taxpayer declares and pays his fair share, federal services to everyone will suffer, or honest taxpayers will have to pay more. Sooner or later, those who do not comply with the tax law are likely to be discovered. Penalties can be severe.
4. Another client at the hotel, Mr. Williams, owned a car that was impounded and towed away by IRS agents.	If taxpayers fail to pay what they have been adjudged to owe, the IRS is empowered to seize their assets to recover the debt.
5. When Julio's co-worker, Torie, learned that her brother and employer, who paid her in unreported cash wages, was being audited by the IRS, she was afraid she'd have to pay back taxes. Her friend Britt decided to talk to his boss about having more of his income from tips recorded and subject to deductions.	When Britt heard that Torie's brother, who paid employees in cash, was being audited and that employees might be subject to payment of back taxes, he realized that the IRS could also find out about his income from tips. He would rather have the tax deducted regularly in small amounts than be subject to a large back tax payment later.

PROCESSING YOUR TAX RETURN

Read the statements below. If a statement is true, write **T** in the blank to the left; if the statement is false, write **F**.

_______ **1.** Using the peel-off label and coded envelope that comes with your tax package may speed up your refund.

_______ **2.** If you call the IRS, the call may be recorded and your return may be marked for examination.

_______ **3.** IRS examiners, agents, and revenue officers work on salary—that is, they don't receive any percentage of the money they collect from delinquent taxpayers.

_______ **4.** Whether you file your return early or at the last minute doesn't affect the chance of having your return selected for examination.

_______ **5.** If IRS representatives assist you with your return, they won't allow you to claim the deductions that other tax preparing assistants might encourage you to take, and your tax will be higher.

_______ **6.** You will definitely owe more tax if your return is examined.

_______ **7.** When IRS makes a mistake, it never gets corrected.

_______ **8.** If your tax return is examined once, it is not likely to be examined year after year.

_______ **9.** If you do not agree with the IRS's determination of the amount of tax you owe, you have the right to appeal.

_______ **10.** If you owe taxes and cannot pay right away, the IRS will seize all your property.

Answers

1. True. The coded label prevents errors in [illegible]ing or reading your name and social security number that would slow processing. The envelope is pre-addressed to the correct service center and is designed to be opened quickly. None of the information would cause your tax return to be chosen for examination.

2. False. Calls may be monitored as a way of checking whether IRS employees are answering courteously and correctly. Nothing in the phone system screens callers for future tax examinations. No records are kept of callers' names unless they ask for forms, publications, or more information.

3. True. All IRS employees work for a salary. The amount of money that they collect or don't collect has no direct effect on their paychecks.

4. True. The date you mail your return has no effect on whether or not your return will be selected for examination. The sophisticated computer system that selects returns for examination gives the same treatment to all returns regardless of when they are filed.

5. False. IRS personnel will give you the benefit of all allowable deductions you make known to them, and they will advise you concerning other adjustments or credits to which you may be entitled. If facts and figures remain the same, the amount of tax will be identical no matter who prepares the return.

6. False. There are three possible results of an examination: more tax, less tax, or no change to your tax. Since most returns are selected for examination because there is a good probability of additional tax, many examinations do result in increased tax. However, many taxpayers come away from an examination with a refund or with no change at all.

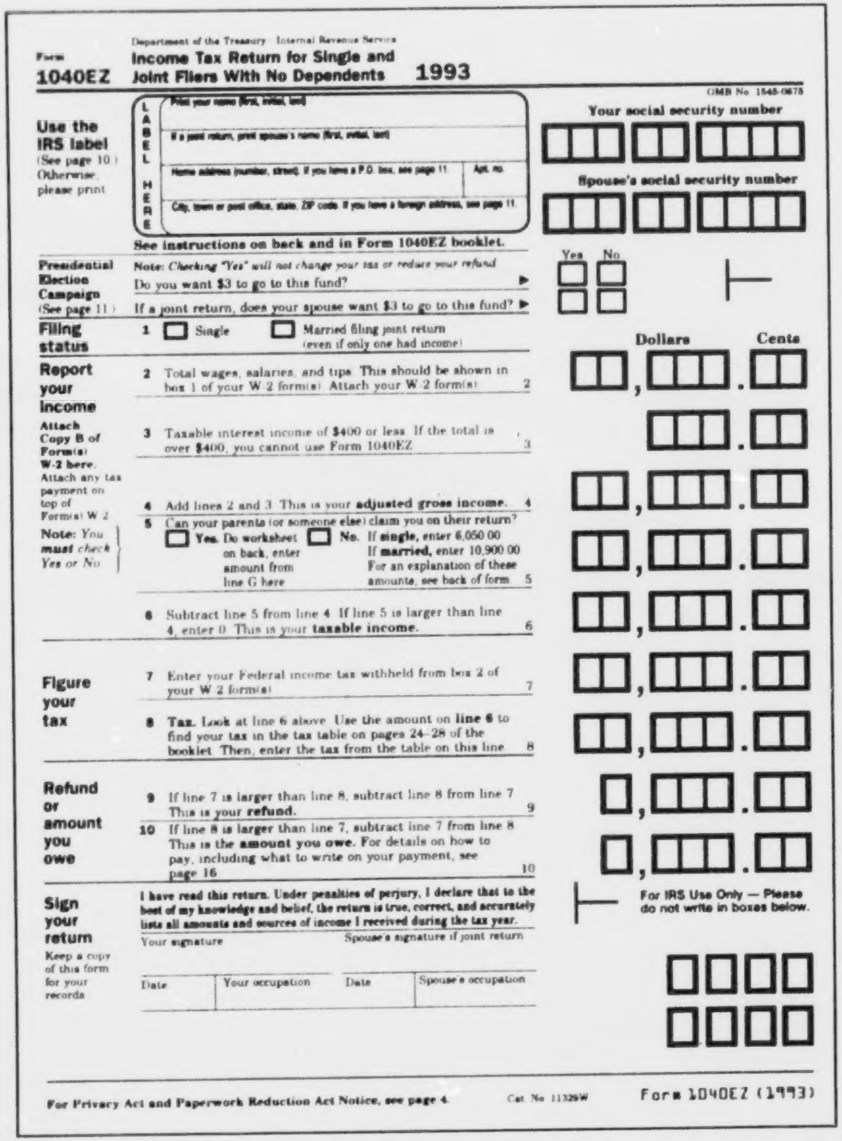
7. False. If the IRS makes an error, it will usually be corrected if you bring it to the IRS's attention. However, if your attempts to correct the error fail, you should contact the Problem Resolution Office by calling the IRS and asking specifically for that office. The PRO will make sure your problem receives proper attention.

8. True. The IRS makes a special effort not to examine returns of the same people repeatedly. In fact, the IRS has a program called the Repetitive Examination Procedure, designed to ensure that no taxpayer is examined for two consecutive years on the same issue, if the first examination resulted in no change in tax.

9. True. You may request a conference with an IRS supervisor or appeals officer. If you do not reach a settlement that satisfies you, you may pursue your appeal through the Tax Court, Federal District Court, or U.S. Claims Court.

10. False. If you receive a notice from the IRS that you owe money that you can't pay right away, call your IRS office immediately to discuss installment payments. The IRS seizes property or places levies on wages only as a last resort. Taxpayers should always file on time, even if they cannot pay, and should ask the IRS about payment arrangements when they file the return.

FORM 1040EZ



Department of the Treasury Internal Revenue Service

Form **1040EZ** **Income Tax Return for Single and Joint Filers With No Dependents** **1993**

OMB No. 1545-0675

Use the IRS label (See page 10.) Otherwise, please print

LABEL HERE

Print your name (first, initial, last)

If a joint return, print spouse's name (first, initial, last)

Home address (number, street). If you have a P.O. box, see page 11. | Apt. no.

City, town or post office, state, ZIP code. If you have a foreign address, see page 11.

Your social security number ☐☐☐ ☐☐ ☐☐☐☐

Spouse's social security number ☐☐☐ ☐☐ ☐☐☐☐

See instructions on back and in Form 1040EZ booklet.

Presidential Election Campaign (See page 11.)

Note: *Checking "Yes" will not change your tax or reduce your refund.*

Do you want $3 to go to this fund? ▶ Yes ☐ No ☐

If a joint return, does your spouse want $3 to go to this fund? ▶ Yes ☐ No ☐

Filing status

1 ☐ Single ☐ Married filing joint return (even if only one had income)

Dollars | Cents

Report your income

Attach Copy B of Form(s) W-2 here. Attach any tax payment on top of Form(s) W-2.

Note: *You* ***must*** *check Yes or No*

2 Total wages, salaries, and tips. This should be shown in box 1 of your W-2 form(s). Attach your W-2 form(s). 2 ☐☐,☐☐☐.☐☐

3 Taxable interest income of $400 or less. If the total is over $400, you cannot use Form 1040EZ. 3 ☐☐☐.☐☐

4 Add lines 2 and 3. This is your **adjusted gross income.** 4 ☐☐,☐☐☐.☐☐

5 Can your parents (or someone else) claim you on their return?
☐ **Yes.** Do worksheet on back, enter amount from line G here.
☐ **No.** If **single,** enter 6,050.00. If **married,** enter 10,900.00. For an explanation of these amounts, see back of form. 5 ☐☐,☐☐☐.☐☐

6 Subtract line 5 from line 4. If line 5 is larger than line 4, enter 0. This is your **taxable income.** 6 ☐☐,☐☐☐.☐☐

Figure your tax

7 Enter your Federal income tax withheld from box 2 of your W-2 form(s). 7 ☐☐,☐☐☐.☐☐

8 **Tax.** Look at line 6 above. Use the amount on **line 6** to find your tax in the tax table on pages 24–28 of the booklet. Then, enter the tax from the table on this line. 8 ☐☐,☐☐☐.☐☐

Refund or amount you owe

9 If line 7 is larger than line 8, subtract line 8 from line 7. This is your **refund.** 9 ☐,☐☐☐.☐☐

10 If line 8 is larger than line 7, subtract line 7 from line 8. This is the **amount you owe.** For details on how to pay, including what to write on your payment, see page 16. 10 ☐,☐☐☐.☐☐

Sign your return

Keep a copy of this form for your records.

I have read this return. Under penalties of perjury, I declare that to the best of my knowledge and belief, the return is true, correct, and accurately lists all amounts and sources of income I received during the tax year.

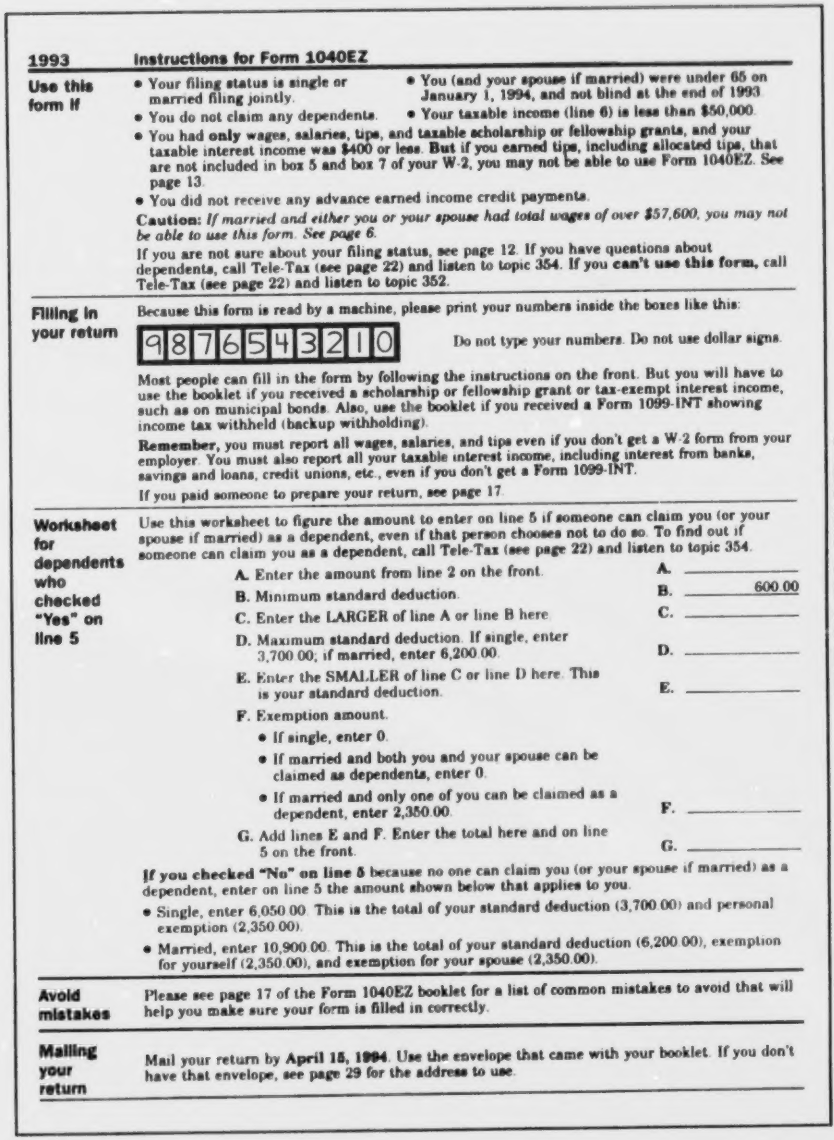
Your signature | Spouse's signature if joint return

Date	Your occupation	Date	Spouse's occupation

For IRS Use Only — Please do not write in boxes below.

☐☐☐☐
☐☐☐☐

For Privacy Act and Paperwork Reduction Act Notice, see page 4. Cat. No. 11329W Form 1040EZ (1993)



1993 **Instructions for Form 1040EZ**

Use this form if

- Your filing status is single or married filing jointly.
- You do not claim any dependents.
- You (and your spouse if married) were under 65 on January 1, 1994, and not blind at the end of 1993.
- Your taxable income (line 6) is less than $50,000.
- You had **only** wages, salaries, tips, and taxable scholarship or fellowship grants, and your taxable interest income was $400 or less. **But** if you earned tips, including allocated tips, that are not included in box 5 and box 7 of your W-2, you may not be able to use Form 1040EZ. See page 13.
- You did not receive any advance earned income credit payments.

Caution: *If married and either you or your spouse had total wages of over $57,600, you may not be able to use this form. See page 6.*

If you are not sure about your filing status, see page 12. If you have questions about dependents, call Tele-Tax (see page 22) and listen to topic 354. If you **can't use this form,** call Tele-Tax (see page 22) and listen to topic 352.

Filling in your return

Because this form is read by a machine, please print your numbers inside the boxes like this:

9 8 7 6 5 4 3 2 1 0

Do not type your numbers. Do not use dollar signs.

Most people can fill in the form by following the instructions on the front. But you will have to use the booklet if you received a scholarship or fellowship grant or tax-exempt interest income, such as on municipal bonds. Also, use the booklet if you received a Form 1099-INT showing income tax withheld (backup withholding).

Remember, you must report all wages, salaries, and tips even if you don't get a W-2 form from your employer. You must also report all your taxable interest income, including interest from banks, savings and loans, credit unions, etc., even if you don't get a Form 1099-INT.

If you paid someone to prepare your return, see page 17.

Worksheet for dependents who checked "Yes" on line 5

Use this worksheet to figure the amount to enter on line 5 if someone can claim you (or your spouse if married) as a dependent, even if that person chooses not to do so. To find out if someone can claim you as a dependent, call Tele-Tax (see page 22) and listen to topic 354.

A. Enter the amount from line 2 on the front.	A. ________
B. Minimum standard deduction.	B. 600.00
C. Enter the LARGER of line A or line B here.	C. ________
D. Maximum standard deduction. If single, enter 3,700.00; if married, enter 6,200.00.	D. ________
E. Enter the SMALLER of line C or line D here. This is your standard deduction.	E. ________
F. Exemption amount. • If single, enter 0. • If married and both you and your spouse can be claimed as dependents, enter 0. • If married and only one of you can be claimed as a dependent, enter 2,350.00.	F. ________
G. Add lines E and F. Enter the total here and on line 5 on the front.	G. ________

If you checked "No" on line 5 because no one can claim you (or your spouse if married) as a dependent, enter on line 5 the amount shown below that applies to you.

- Single, enter 6,050.00. This is the total of your standard deduction (3,700.00) and personal exemption (2,350.00).
- Married, enter 10,900.00. This is the total of your standard deduction (6,200.00), exemption for yourself (2,350.00), and exemption for your spouse (2,350.00).

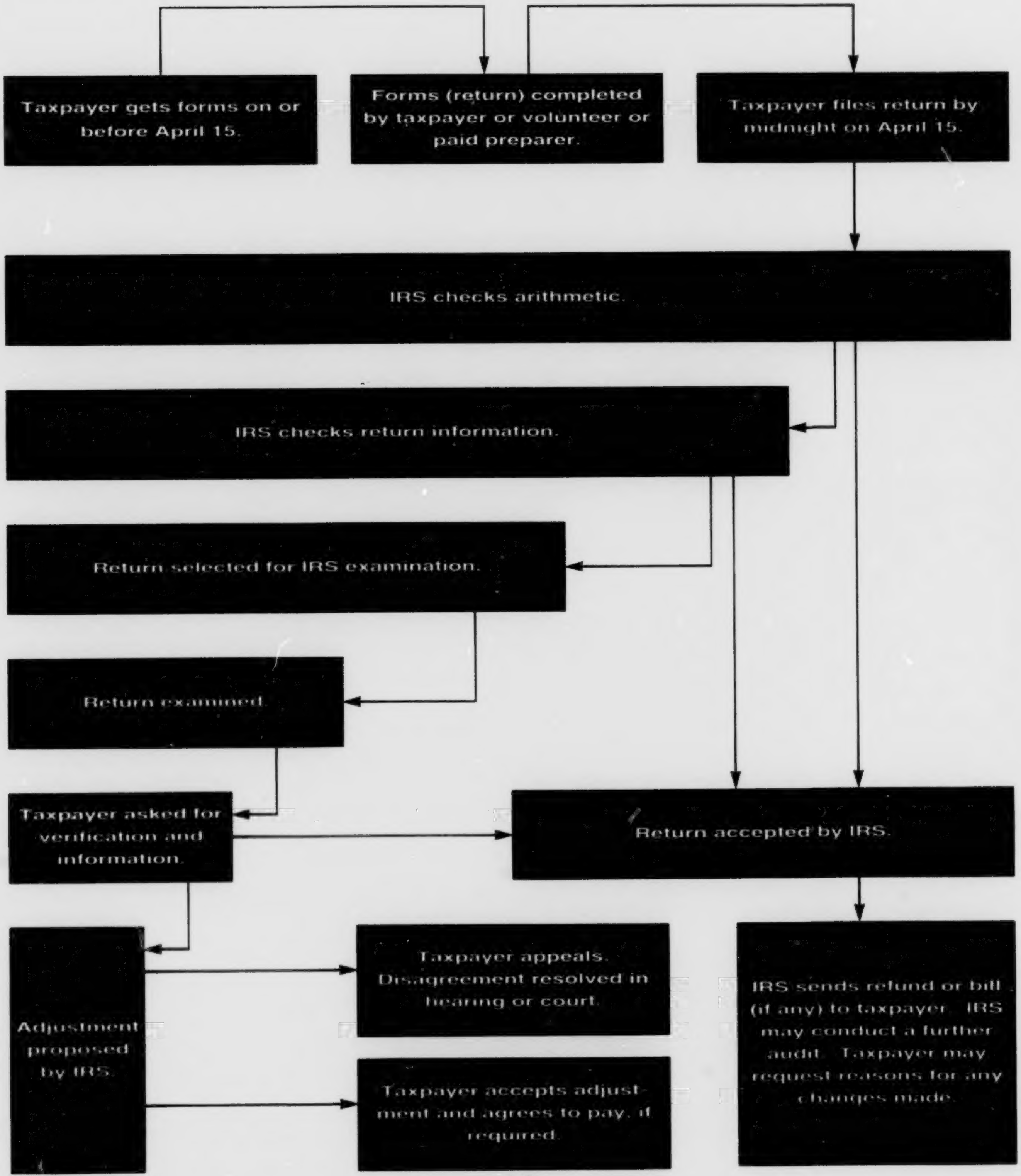
Avoid mistakes

Please see page 17 of the Form 1040EZ booklet for a list of common mistakes to avoid that will help you make sure your form is filled in correctly.

Mailing your return

Mail your return by **April 15, 1994**. Use the envelope that came with your booklet. If you don't have that envelope, see page 29 for the address to use.

PROCESSING TAX FORMS


Taxpayer gets forms on or before April 15.
Forms (return) completed by taxpayer or volunteer or paid preparer.
Taxpayer files return by midnight on April 15.
IRS checks arithmetic.
IRS checks return information.
Return selected for IRS examination.
Return examined.
Taxpayer asked for verification and information.
Return accepted by IRS.
Adjustment proposed by IRS.
Taxpayer appeals. Disagreement resolved in hearing or court.
Taxpayer accepts adjustment and agrees to pay, if required.
IRS sends refund or bill (if any) to taxpayer. IRS may conduct a further audit. Taxpayer may request reasons for any changes made.

Case Study:

The Carpenters File Their Tax Return

In December, Nancy and Jeff Carpenter received their package of tax forms from the IRS. They checked the label in the packet to make sure that their names, address, and social security numbers were listed accurately. In January, they received their W-2 forms from their employers, which showed them how much tax had been withheld from their paychecks. They did not have an end-of-year statement from their bank stating the interest they had earned on their savings account, so Nancy called the bank and asked to have a duplicate statement sent. Because the Carpenters had recently moved, Jeff went to the library to pick up the appropriate form to claim moving expenses. When they had the proper forms and information, they filled them out carefully, following the instructions, and mailed them to their regional IRS Service Center on April 5.

Jeff Carpenter was running for a seat in his state's legislature. His political rival hoped to prove that Nancy had illegal sources of income. He called the Service Center on April 22 and asked to have a copy of the Carpenters' return sent to him, citing the Freedom of Information Act. His request was refused. He was told that all tax information is private and available only to authorized tax personnel.

PAUSE until you are told to go on.

In the meantime, IRS officials checked the arithmetic on the Carpenters' forms. A minor error would have provided them with a small refund. However, their return was one of the fewer than one percent that was selected for further examination. An IRS representative contacted Nancy and Jeff, asking them to meet with him and to bring verification of their moving expenses. At the meeting, the IRS representative ruled that many of their expenses, including the temporary storage of their furniture, were not tax deductible. He asked the Carpenters to sign an agreement to pay the additional tax.

The Carpenters disagreed with the examiner's decision. They decided to appeal. A few days later, they received notice of their right to appeal within 30 days, a copy of the examination report explaining the proposed adjustments, the agreement or waiver form, and a copy of Publication 5, Appeal Rights and Preparation of Protests for Unagreed Cases. Rather than sign and return the agreement, Nancy and Jeff studied Publication 5 to prepare their appeal. They understood their right to take their case to the Tax Court, but they preferred to appeal within the IRS.

Their appeals conference was informal. Nancy and Jeff described how Jeff's new job required the move and the reasons they had to live in temporary housing and store their furniture. They provided a letter from Jeff's employer, documents from the moving company, and proof of their rental of temporary furnished housing. This time the IRS agent agreed with them. They won their appeal, and they were also issued a refund for overpayment due to an error in arithmetic.

Jeff decided to release copies of his return to the press to forestall his opponent's charges.

LESSON SUMMARY

TAXPAYER RIGHTS AND RESPONSIBILITIES

PURPOSE

To help students understand that they have basic rights and responsibilities as taxpayers.

OBJECTIVES

After participating in the suggested activities, students will be able to:

- discuss the taxpayers' responsibilities related to filing a tax return
- describe the taxpayers' rights to appeal IRS decisions

Taxpayers have four major responsibilities in regard to their taxes. They must:

1. file (mail or otherwise convey to the IRS) a return (a statement showing their income, exemptions, deductions, and calculation of taxes owed) as the law requires, usually once a year;
2. obtain the forms and instructions for filing that are appropriate for their tax situation;
3. provide complete and accurate information; and
4. file their returns on time with their regional IRS Service Center.

The IRS must respect the rights of taxpayers to:

1. strict privacy and confidentiality of the information in the returns, which can be examined only by authorized tax personnel; and
2. appeal IRS-proposed adjustments to their return.

LESSON 1
INCOME TAX AND YOU

PURPOSE

To help students understand the importance of voluntary compliance with income tax laws in a constitutional democracy and the consequences for noncompliance for citizens and society.

OBJECTIVES

After viewing the video program and participating in the suggested activities, students will be able to:

- describe how income taxes provide revenue for goods and services that benefit the general public
- identify the rights, opportunities, and obligations of citizens to participate in the formulation and enforcement of tax policy
- demonstrate understanding of the illegality and consequences of noncompliance

MATERIALS

- Video Program A, "Income Tax and You"
- Student Handout 1.1, "Glossary of Key Terms"
- Student Handout 1.2, "Payroll Taxes" (also used in Lesson 5)
- Student Handout 1.3, "Examination of Returns, Penalties, and Refunds"
- Student Handout 1.4, "Lesson Summary"
- A complete deck of cards (excluding the joker)

KEY TERMS

Form W-4 (Employee's Withholding Allowance Certificate)
A form that helps an employer determine how much to withhold from an employee's paycheck for federal income tax purposes.

Personal Income Tax
A tax based on the amount of taxable income that people receive annually. Taxable income is less than total income because of exemptions and deductions.

Public Goods and Services
A public good is one that cannot be withheld from those who don't pay for it, and one that may be "consumed" by one person without reducing the amount of the product available for others. Examples include national defense, street lights, and roads and highways. Public services include welfare programs, law enforcement, monitoring and regulating of trade and the economy, and education.

Tax Liability (or Total Tax Bill)
The amount of tax that must be paid. Taxpayers meet (or pay) their federal income tax liability through withholding, estimated tax payments, and payments attached to the tax forms they file with the government.

Voluntary Compliance
A system of compliance that relies on individual citizens to report their income freely and voluntarily, calculate their tax liability correctly, and file a tax return on time.

Withholding ("Pay-as-you-earn" Taxation)
Money that employers withhold from employees' paychecks. This money is deposited for the government. It will be credited against the employees' tax liability when they file their returns. Employers withhold money for federal income taxes, federal social security taxes, and state and local income taxes in some states and localities.

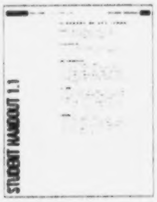
Opening the Lesson

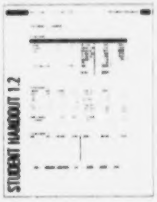
Ask students whether any of them have jobs in which they receive regular paychecks.

Students could raise hands or briefly cite their experiences.

Ask the students what their reaction was to their first paycheck.

Elicit reactions of surprise or shock at the amount withheld.





Distribute copies of Student Handouts 1.1, "Glossary of Key Terms" and 1.2, "Payroll Taxes," or project these using an overhead projector.

Discuss the meaning of several of the terms in the glossary, including personal income tax, tax liability, and withholding.

Discussion should make clear that everyone with income from a job or savings may be subject to federal personal income tax, and they may be subject to state and local income tax as well. (Personal income tax, levied on the income of a person or married couple, is distinct from business or corporate income tax, which is levied on the income of a business.)

Because nearly everyone has some tax liability, the system of withholding was developed so that taxpayers could pay as they earned rather than have to pay a substantial sum at one time.

However, withholding applies only to wage or salary income. Normally tax is not withheld from cash payments (tips). However, tax is still owed on this and most other types of income.

Have the students study Student Handout 1.2. Make sure they understand the meaning and reasons for the different amounts withheld.

Students should volunteer, or be told, that:

- FICA TAX" funds social security. (FICA stands for "Federal Insurance Contributions Act," the legislation that provides the foundation for the social security program.)
- "Medicare" tax funds the federal health program for those over age 65. (In example 1, the medical tax is included in the "FICA.")

Both of these deductions are required by federal statute. Other deductions involve voluntary compliance—that is, taxpayers must take responsibility for reporting their income, calculating their tax liability, and providing information for the appropriate amounts to be withheld. Taxes subject to voluntary compliance include:

- "FED TAX," "Federal W/H," and FEDERAL WH.," which all refer to federal personal income tax withholding.
- "NY STATE TAX" and "NYC TAX" on Example 1, "WI State W/H" on Example 2, and "INDIANA" and "MONROE CO." on Example 3 are examples of voluntarily withheld state and local taxes. The remaining deductions are purely voluntary. They include deductions for disability or health insurance and savings accounts. (On Example 2, "E.I.C." refers to Earned Income Credit, a "reverse income tax" available to low-income taxpayers.)

Call attention to the final line in Example 2: "ALLOCATED TIP." Explain that FICA and Medicare tax must be paid on cash income such as tips, and that income tax is owed on such earnings.

Formulas exist for employees deriving regular income from tips to have the appropriate amounts deducted.

State that the video program, "Income Tax and You," dramatizes some of the issues involved in voluntary compliance with tax laws, especially in regard to tips and cash wages.

Developing the Lesson

Show video program A (15 minutes). Following the program summary is a set of discussion questions. You may want to pause the tape and ask the questions at the points indicated or wait to ask all questions at the conclusion of the video.

Program Summary

Julio, Britt, and Torie are high-school students working as valet car parkers at a suburban hotel. Receiving his first paycheck, Julio is surprised at the amount deducted for taxes. His employer shows him the W-4 form Julio had filled out when he started working and explains that Julio's calculations on the worksheet that came with the form help determine how much should be withheld. Julio realizes that it will take longer to earn money for a new car than he had thought. His co-workers suggest that he can "get around" taxes if he works for someone—like Torie's brother—who pays in cash and keeps no records.

Julio's father explains that taxes are necessary for the government to provide the goods and services that benefit everyone. He also points out that avoiding taxes by not declaring cash income is illegal and that there are severe penalties for breaking the law. "It's just not worth it."

As Julio, on break at the hotel, is discussing the movies he loves with Mia, a high school student working as a waitress, Britt rushes in to announce that the sports car owned by one of their customers is being towed by IRS agents for nonpayment of taxes. Shocked, Julio and Mia listen to another guest, a lawyer specializing in tax law, who explains that the federal income tax is based on a system of voluntary compliance, which means that everyone is responsible for filing tax returns accurately and on time. When people fail to pay their fair share, everyone suffers from reduced services or higher taxes to make up the shortfall. Those who feel the tax law is unfair are entitled to discuss their concerns with lawmakers and try to affect the development of tax policy and laws.

Britt argues that the car's owner was simply stupid—that he himself would know how to "keep it under control" so the IRS would not find out he was cheating on taxes owed on cash earnings. Mia says that she gets a lot of her earnings in cash, as tips, as Julio also does. Britt mocks them for declaring their tips as income, but Julio and Mia respond that payment is required by the system of voluntary compliance.

As Julio succeeds in making a date with Mia, Britt, downcast, reports that Torie's brother, who had been paying her in unreported cash for weekend work, was being audited by the IRS. Torie might have to pay a large amount of back taxes. Britt decides to have his boss withhold more of his salary derived from tips.

To help the students understand the video program, ask them the following questions, either when you pause the video at the points indicated in brackets, or after the students have seen the complete video program:

Pause the tape after Julio says, "Whew, buying a car is gonna take longer than I thought" following his discussion with his boss, Gordon.

Why does Gordon, Julio's boss, show Julio his W-4 form when Julio expresses surprise at the amount of his deductions?
The information on the W-4 form is the basis for determining how much income tax should be withheld from a paycheck. On the accompanying worksheet, Julio figured the appropriate withholding allowances to put on the W-4. Some deductions—those for FICA and Medicare—are required by law.

Pause the tape at the end of the scene showing Julio and his dad shooting hoops and discussing taxes and ask the two following questions:

Why do Britt and Torie think they do not need to declare cash income, including tips?
Because those who pay tips do not appear to keep written records of these transactions, they assume that the IRS will not know about such income.

Why is it important that such income be declared?
Under the system of voluntary compliance, it is taxpayers' responsibility to declare all of their income. Unless each taxpayer declares and pays his fair share, federal services to everyone will suffer, or honest taxpayers will have to pay more. Sooner or later, those who do not comply with the tax law are likely to be discovered. Penalties can be severe.

Ask the two following questions at the end of the video program:

Why was Mr. Williams' car towed away?
If taxpayers fail to pay what they have been adjudged to owe, the IRS is empowered to seize their assets to pay the debt.

Why did Britt decide to talk to Gordon (his boss) about having more of his income from tips subject to deductions?
When Britt heard that Torie's brother, who paid employees in cash, was being audited and that employees might be subject to payment of back taxes, he realized that the IRS could also find out about his income from tips. He would rather have the tax deducted regularly in small amounts than be subject to a large back tax payment later.

Concluding the Lesson

Deal out all 52 cards from a well-shuffled, complete deck, going around the class until all cards are passed out. In a class averaging 30 students, each should have at least one card. Some will have more.

Tell the students that the cards represent personal income from various sources. Aces and cards with numbers two through ten represent income from paychecks from which tax has been withheld. Employers have records of these payments. Face cards represent tips and other cash earnings for which there may be no written record.

Circulate a container—box or bag—around the class. Tell the students that the tax system in the class is one of voluntary compliance—by dropping their cards into the container, students are "reporting their income" and "accepting responsibility for their tax liability." A "unit of tax revenue" is figured on each card returned to raise the required 52 units of revenue for the school. Invite the students to drop their returns into the circulating container.

While the cards are being collected, write on the board:

School Services	
Teachers	20
Physical plant	12
Cleaning and maintenance	8
Athletic facilities	6
Counseling, support personnel	4
Security	2
	52

Have a student count the returned cards.

Ask, "Are any missing? How many?"

If any cards are missing, draw a line through the number 52 on the board, and write the total number of returned cards next to it (for example, 52 44). Say to the students, "Our revenues only total 44 [or number of cards returned]. Which of these services should we cut back on, and by how much?" Revise amounts according to their responses. Then ask the students who "failed to report their cash income" to "come clean." Advise them that they must not only turn in the face cards they have hidden, but they may owe interest as well. Suggest to the class that any extra money recovered from these students be used for "security" to prevent more cheating!

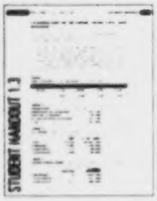
OR

If all 52 cards are returned, compliment the students on their honesty and advise them that most of them, as students with minimal incomes derived mainly from wages, would, in the real world, be eligible for tax refunds. Remind them that it's a lot more pleasant to receive a refund than to be assessed back taxes with possible penalties.

Extending the Lesson

(Homework or class activity)

The following exercise provides students with practice in reading and interpreting information tables. It is especially recommended for those who may need to practice math skills. Use of a calculator is recommended.



Distribute copies of Student Handout 1.3, "Examination of Returns, Penalties, and Refunds."

Make sure students understand the four questions. Encourage them to round off the numbers to a workable size. Explain to them, that in the interest of making the numbers and amounts in questions 3 and 4 easier to work with, they are presented in rounded-off thousands; the actual numbers in the IRS report had three more places before the decimal. (In question 3, "29,379" should be understood as "29,379,000"; "$6,521,000" is really "$6,521,000,000." In question 4, "4.2" reads "4,194" in the original IRS table; "22.7" is printed "22,719." Using these original numbers will result in slightly different answers in some cases.) You may want to use this assignment as an exercise in understanding decimal and place value and in working efficiently with large numbers.

Answers:

1. Total: 0.68%
Individual: 0.98%
Corporation: 1.46%
Employment: .28%

2. Positive: 449,400 (98,300 + 351,100)
Negative: 941,700

The proportion of positive to negative outcomes was approximately 45 to 94, or 47%. (However, only 38% of the total number of returns examined escaped additional tax.)

3. Total: $222 per return
Individual: $178
Corporation: $1,161
Employment: $208

Average penalties on corporation tax returns were the highest.

4. Total recommended refunds: $1,400,000
Individual: $3,797 per return
Corporation: $120,714
Employment: $29,471

Largest average refunds per return went to corporate filers.

LESSON 2
TAXPAYER RIGHTS AND RESPONSIBILITIES

PURPOSE

To help students understand that they have basic rights and responsibilities as taxpayers.

OBJECTIVES

After viewing the video program and participating in the suggested activities, students will be able to:

- discuss the taxpayers' responsibilities related to filing a tax return
- describe the taxpayers' rights to appeal IRS decisions

MATERIALS

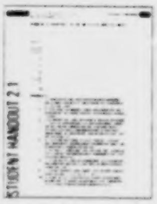
- Student Handout 2.1, "Processing Your Tax Return"
- Student Handout 2.2, IRS Form 1040EZ (also used in Lesson 3)
- Student Handout 2.3, "Processing Tax Forms"
- Student Handout 2.4, "Case Study: The Carpenters File Their Tax Return"
- Student Handout 2.5, "Lesson Summary"

KEY TERM

File a Return
To file means to mail or otherwise convey to a regional IRS Service Center the appropriate IRS form(s)—the return—on which a taxpayer has entered information about income and tax liability.

Opening the Lesson

Distribute Student Handout 2.1, "Processing Your Tax Return," a true/false quiz about how the IRS processes tax returns. This quiz is not meant for assessment, but to stimulate discussion about myths and misconceptions about taxes. Give the students a few minutes to try to answer the questions, individually or together. Then go over the quizzes together, asking students to volunteer their answers and stopping to discuss their reasoning and the facts.



STUDENT HANDOUT 2.1

Answers to True/False Handout:

1. "Using the peel-off label and coded envelope that comes with your tax package may speed up your refund." (If you have recently received your own forms and booklet, you may want to bring them to class to show the students the label and envelope.)

1. True. The coded label prevents errors in writing or reading your name and social security number that would slow processing. The envelope is pre-addressed to the correct service center and is designed to be opened quickly. None of the information would cause your tax return to be chosen for examination.

2. If you call the IRS, the call may be recorded and your return may be marked for examination.

2. False. Calls may be monitored as a way of checking whether IRS employees are answering courteously and correctly. Nothing in the phone system screens callers for future tax examinations. No records are kept of callers' names unless they ask for forms, publications, or more information.

3. IRS examiners, agents, and revenue officers work on salary—that is, they don't receive any percentage of the money they collect from delinquent taxpayers.

3. True. All IRS employees work for a salary. The amount of money that they collect or don't collect has no direct effect on their paychecks.

4. Whether you file your return early or at the last minute doesn't affect the chance of having your return selected for examination.

4. True. The date you mail your return has no effect on whether or not your return will be selected for examination. The sophisticated computer system that selects returns for examination gives the same treatment to all returns regardless of when they are filed.

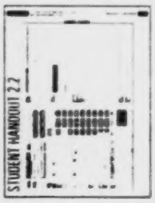
5. If IRS representatives assist you with your return, they won't allow you to claim the deductions that other tax preparing assistants might encourage you to take, and your tax will be higher.	**5.** False. IRS personnel will give you the benefit of all allowable deductions you make known to them, and they will advise you concerning other adjustments or credits to which you may be entitled. If facts and figures remain the same, the amount of tax will be identical no matter who prepares the return.
6. You will definitely owe more tax if your return is examined.	**6.** False. There are three possible results of an examination: more tax, less tax, or no change to your tax. Since most returns are selected for examination because there is a good probability of additional tax, many examinations do result in increased tax. However, many taxpayers come away from an examination with a refund or with no change at all.
7. When IRS makes a mistake, it never gets corrected.	**7.** False. If the IRS makes an error, it will usually be corrected if you bring it to the IRS's attention. However, if your attempts to correct the error fail, you should contact the Problem Resolution Office by calling the IRS and asking specifically for that office. The PRO will make sure your problem receives proper attention.
8. If your tax return is examined once, it is not likely to be examined year after year.	**8.** True. The IRS makes a special effort not to examine returns of the same people repeatedly. In fact, the IRS has a program called the Repetitive Examination Procedure, designed to ensure that no taxpayer is examined for two consecutive years on the same issue, if the first examination resulted in no change in tax.
9. If you do not agree with the IRS's determination of the amount of tax you owe, you have the right to appeal.	**9.** True. You may request a conference with an IRS supervisor or appeals officer. If you do not reach a settlement that satisfies you, you may pursue your appeal through the Tax Court, Federal District Court, or U.S. Claims Court.
10. If you owe taxes and cannot pay right away, the IRS will seize all your property.	**10.** False. If you receive a notice from the IRS that you owe money that you can't pay right away, call your IRS office immediately to discuss installment payments. The IRS seizes property or places levies on wages only as a last resort. Taxpayers should always file on time, even if they cannot pay, and should ask the IRS about payment arrangements when they file the return.

Developing the Lesson

Discussion: Taxpayer Responsibilities

Write on the board the heading: "Taxpayer Responsibilities." Ask students to state their taxpaying responsibilities under law. Solicit as many different ideas as possible.
Most students are likely to offer some version of "to pay taxes" or "to send a check."

Ask students, "Suppose your entire income comes from job earnings, and every paycheck has tax money withheld. What is your responsibility then?"
Students may offer, "File a return, so you can get a refund." Point out that depending on your status and your total taxable income, you may not always get a refund. Some people may owe money. In all cases, however, you must file a return.



Circulate a copy of Student Handout 2.2, "IRS Form 1040EZ," and explain that this is the form filed by most single people with limited sources of income.

Write "1. File a return" on the board under the heading "Taxpayer Responsibilities."
One of the 1040 forms must be filed to show how much tax you have had withheld and how much you owe or need to have refunded. If, after you fill out the form, it is clear that you owe money, you should attach a check or money order.

Ask, "How do you get the form to file?"
The forms are available in IRS offices, banks and various public facilities (libraries, post offices). If you are filing for the first time, you must get the forms yourself. After you have filed once, the IRS will send you a package of forms similar to those you filed the previous year. If your situation changes, you are responsible for getting the forms you need.

Write on the board, "2. Obtain forms and instructions."
The IRS has many publications to help taxpayers. IRS Publication 17, Your Federal Income Tax, provides comprehensive information of interest to most taxpayers. Tax forms and publications may be ordered by calling the IRS toll-free at 1-800-TAX-FORM (1-800-829-3676).

Permit students to debate the issue.

Ask, "Suppose you go to the booth at the Mall offering tax preparation help, or get your parents or a family friend to prepare your return for you, and the person preparing it makes mistakes requiring the payment of interest and penalties. Who pays these?"
Even if a paid preparer or volunteer income tax assistor completes the forms, the taxpayer is responsible for any errors or misrepresentations they contain. If additional tax, interest, or penalties are due, the taxpayer must

pay them. The taxpayer is also responsible for maintaining records—saving receipts, canceled checks, and other verification of deductible expenses.

Ask, "When do you have to send in your completed return?"

Write on the board, "3. Provide complete and accurate information."

Most students will probably respond correctly, "By April 15."

Write on the blackboard, "4. File on time."

The return for each year must be filed (mailed) by midnight on the following April 15, unless April 15 falls on a Saturday, Sunday, or legal holiday. Filing your return late may require you to pay a penalty. The return should be sent to the regional IRS Service Center. The nearest Service Center and its address is listed in the instructions that accompany the form you file. Review the four taxpayer responsibilities that you have listed on the board.

Taxpayer Responsibilities

1. **File a return.**
2. **Obtain forms and instructions.**
3. **Provide complete and accurate information.**
4. **File on time.**

Activity: Case Study—Taxpayer Rights

Distribute Student Handout 2.3, "Processing Tax Forms." (You may want to use this as a transparency.)

Have students trace with their fingers the movement of a tax form through processing. (You might trace the sequence on the transparency.) Point out the various options available at certain steps.

STUDENT HANDOUT 2.3
STUDENT HANDOUT 2.4

Distribute Student Handout 2.4, "Case Study: The Carpenters File Their Tax Return." Have students read the first half, up to the word, "PAUSE." Then ask the following questions:

"What did Nancy and Jeff do that shows they took their taxpayer responsibilities seriously?"

They tried to get correct information from their bank and the correct IRS forms. They filled them out carefully, following instructions, and sent them in on time.

"Why did the IRS refuse to send a copy of their tax return to Jeff's political opponent?"

All taxpayers have the right to privacy of their tax information. It may be examined only by authorized tax personnel. Even law enforcement agencies have no right to examine a suspect's tax returns. (Taxpayers may choose to release copies of the information themselves, however, and some agencies may get tax information.)

Have the students continue reading the case study. When they have finished, ask,

"What were Nancy's and Jeff's responsibilities in the face of a tax examination?"
They attended the meeting requested by the examiner and they brought requested records, which they had kept.

"What rights did Nancy and Jeff have when the examiner asked them to agree to pay additional tax?"
The Carpenters had the right to appeal the examiner's decision either to the Tax Court or within the IRS.

Write on the board, "Rights of Taxpayers."

Review with the students the two basic rights that the Carpenters' story dramatized and write these on the board under the heading: Rights of Taxpayers

Rights of Taxpayers

1. **Right to privacy and confidentiality of all tax information.**
2. **Right to appeal IRS-proposed adjustments to a return.**

Review the list of four responsibilities and two rights.

Concluding the Lesson

Permit your students to discuss the issue of tax examinations further. Following are several questions they might pose and answers to them.

What would happen if taxpayers were unable to reach an agreement with the IRS? or What if repeated appeals fail?
If all allowable appeals result in a decision that the tax is owed, then it is the taxpayer's responsibility to pay the bill or confer with the IRS to arrange payment.

What if taxpayers neglect or refuse to pay the taxes they owe?
IRS Collection has the power to collect unpaid taxes by filing a federal tax lien (a public notice that the Federal Government has a legal interest in someone's property) or by levying against the taxpayer's property. (A levy is the taking of property to pay one's tax bill.) A levy can be made on wages, bank accounts, cars, or other property; the IRS has the authority to sell the property to pay the tax, if necessary. IRS Collection will take lien

or levy actions only as a last resort. Before taking these steps, a revenue representative or officer will try to contact the taxpayer to make arrangements for payment. The law requires that each taxpayer meet his or her tax liability.

STUDENT HANDOUT 2.5

Distribute Student Handout 2.5, "Lesson Summary," to each student. If any students have been absent for the lesson, make sure they receive copies of all student handouts and of the overhead.

Extending the Lesson (Homework or research assignment)

Assign students a tax topic, or let them choose one. Teams of students could be formed to research a single complex topic.

Ask students to call the IRS toll-free order line (1-800-TAX-FORM or 1-800-829-3676) to ask for a publication that will help them research a particular tax question.

The IRS supplies millions of copies of publications each year on such topics as allowable deductions, moving expenses, child and dependent care expenses, recordkeeping, living abroad, home office, medical deductions, and other tax topics.

When they receive the information, have them report to the class, orally or in writing.

Students who have succeeded in requesting and using tax information are more likely to continue to do so when they become taxpayers.

UNDERSTANDING Tax Forms

LESSONS:

From W-4 to 1040A (Software)

GLOSSARY OF KEY TERMS

Adjusted Gross Income
Total income reduced by certain adjustments such as the IRA deduction and the deduction for alimony paid.

Credits
A direct reduction of the tax owed. Credits are allowed for purposes such as child care and the earned income credit for low-income taxpayers.

Dependent
A person who relies on someone else for support. A dependent generally may not be the taxpayer or his or her spouse. A taxpayer may claim an exemption for a dependent if the dependency tests are met.

Dividends
Ordinary dividends are a corporation's distributions to its shareholders from its earnings and profits.

Earned Income
Includes wages, salaries, tips, and net earnings from self-employment and other income received for personal services.

Earned Income Credit
A refundable credit for low-income workers with children. This credit may be paid to the worker even if no income tax was withheld from the worker's pay. To receive the earned income credit, a taxpayer must file a tax return.

Exempt (from Withholding)
Free from federal income tax withholding requirements by meeting certain income, tax liability, and dependency criteria.

Exempt (from Tax Liability)
Tax law provides for a set amount which taxpayers can claim for themselves, their spouses, and eligible dependents. The total of these amounts is subtracted from adjusted gross income before any tax is computed on the remaining income.

Gross Income
Money, goods, and property you received that must be included in taxable income.

Interest Income
Income received from savings accounts or from lending money to someone else.

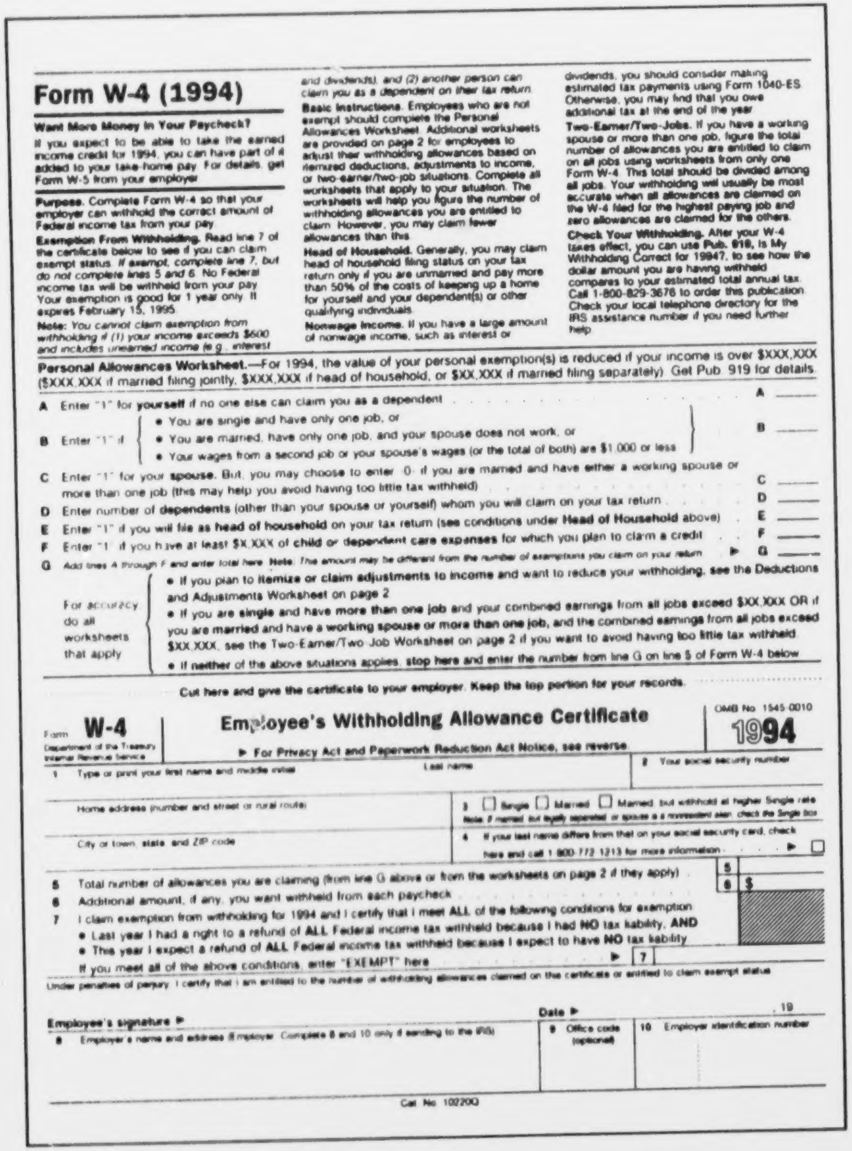
Standard Deduction
An amount fixed by law and based on filing status and age which taxpayers may deduct from their adjusted gross income before tax is determined.

Tax Withholding
Money that an employer takes from an employee's paycheck and that is used to pay part or all of the employee's taxes.

Taxable Income
The income on which tax is computed.

Withholding Allowance
Claimed by an employee on Form W-4. An employer uses the number of allowances claimed, together with income earned and marital status to determine how much income tax to withhold from wages.

FORM W-4



Form W-4 (1994)

Want More Money In Your Paycheck?

If you expect to be able to take the earned income credit for 1994, you can have part of it added to your take-home pay. For details, get Form W-5 from your employer.

Purpose. Complete Form W-4 so that your employer can withhold the correct amount of Federal income tax from your pay.

Exemption From Withholding. Read line 7 of the certificate below to see if you can claim exempt status. *If exempt, complete line 7, but do not complete lines 5 and 6.* No Federal income tax will be withheld from your pay. Your exemption is good for 1 year only. It expires February 15, 1995.

Note: *You cannot claim exemption from withholding if (1) your income exceeds $600 and includes unearned income (e.g., interest and dividends), and (2) another person can claim you as a dependent on their tax return.*

Basic Instructions. Employees who are not exempt should complete the Personal Allowances Worksheet. Additional worksheets are provided on page 2 for employees to adjust their withholding allowances based on itemized deductions, adjustments to income, or two-earner/two-job situations. Complete all worksheets that apply to your situation. The worksheets will help you figure the number of withholding allowances you are entitled to claim. However, you may claim fewer allowances than this.

Head of Household. Generally, you may claim head of household filing status on your tax return only if you are unmarried and pay more than 50% of the costs of keeping up a home for yourself and your dependent(s) or other qualifying individuals.

Nonwage Income. If you have a large amount of nonwage income, such as interest or dividends, you should consider making estimated tax payments using Form 1040-ES. Otherwise, you may find that you owe additional tax at the end of the year.

Two-Earner/Two-Jobs. If you have a working spouse or more than one job, figure the total number of allowances you are entitled to claim on all jobs using worksheets from only one Form W-4. This total should be divided among all jobs. Your withholding will usually be most accurate when all allowances are claimed on the W-4 filed for the highest paying job and zero allowances are claimed for the others.

Check Your Withholding. After your W-4 takes effect, you can use **Pub. 919, Is My Withholding Correct for 1994?**, to see how the dollar amount you are having withheld compares to your estimated total annual tax. Call 1-800-829-3676 to order this publication. Check your local telephone directory for the IRS assistance number if you need further help.

Personal Allowances Worksheet.—For 1994, the value of your personal exemption(s) is reduced if your income is over $XXX,XXX ($XXX,XXX if married filing jointly, $XXX,XXX if head of household, or $XX,XXX if married filing separately). Get Pub. 919 for details.

A Enter "1" for **yourself** if no one else can claim you as a dependent . . . . . **A** ______

B Enter "1" if: { • You are single and have only one job, or • You are married, have only one job, and your spouse does not work, or • Your wages from a second job or your spouse's wages (or the total of both) are $1,000 or less } **B** ______

C Enter "1" for your **spouse**. But, you may choose to enter -0- if you are married and have either a working spouse or more than one job (this may help you avoid having too little tax withheld) . . . . . **C** ______

D Enter number of **dependents** (other than your spouse or yourself) whom you will claim on your tax return . . . **D** ______

E Enter "1" if you will **file as head of household** on your tax return (see conditions under **Head of Household** above) . . **E** ______

F Enter "1" if you have at least $X,XXX of **child or dependent care expenses** for which you plan to claim a credit . . **F** ______

G *Add lines A through F and enter total here.* **Note:** *The amount may be different from the number of exemptions you claim on your return* ▶ **G** ______

For accuracy do all worksheets that apply:
- If you plan to **itemize or claim adjustments to income** and want to reduce your withholding, **see the Deductions and Adjustments Worksheet on page 2.**
- If you are **single** and have **more than one job** and your combined earnings from all jobs exceed $XX,XXX OR if you are **married** and have a **working spouse or more than one job**, and the combined earnings from all jobs exceed $XX,XXX, see the Two-Earner/Two-Job Worksheet on page 2 if you want to avoid having too little tax withheld.
- If **neither** of the above situations applies, **stop here and enter the number from line G on line 5 of Form W-4 below.**

Cut here and give the certificate to your employer. Keep the top portion for your records.

Form **W-4**
Department of the Treasury
Internal Revenue Service

Employee's Withholding Allowance Certificate

▶ **For Privacy Act and Paperwork Reduction Act Notice, see reverse.**

OMB No. 1545-0010
1994

1 Type or print your first name and middle initial   Last name
2 Your social security number
Home address (number and street or rural route)
3 ☐ Single ☐ Married ☐ Married, but withhold at higher Single rate
Note: *If married, but legally separated, or spouse is a nonresident alien, check the Single box.*
City or town, state, and ZIP code
4 If your last name differs from that on your social security card, check here and call 1-800-772-1213 for more information . . . ▶ ☐

5 Total number of allowances you are claiming (from line G above or from the worksheets on page 2 if they apply) . . **5** ______
6 Additional amount, if any, you want withheld from each paycheck . . . . . **6** $ ______
7 I claim exemption from withholding for 1994 and I certify that I meet **ALL** of the following conditions for exemption:
- Last year I had a right to a refund of **ALL** Federal income tax withheld because I had **NO** tax liability; **AND**
- This year I expect a refund of **ALL** Federal income tax withheld because I expect to have **NO** tax liability.

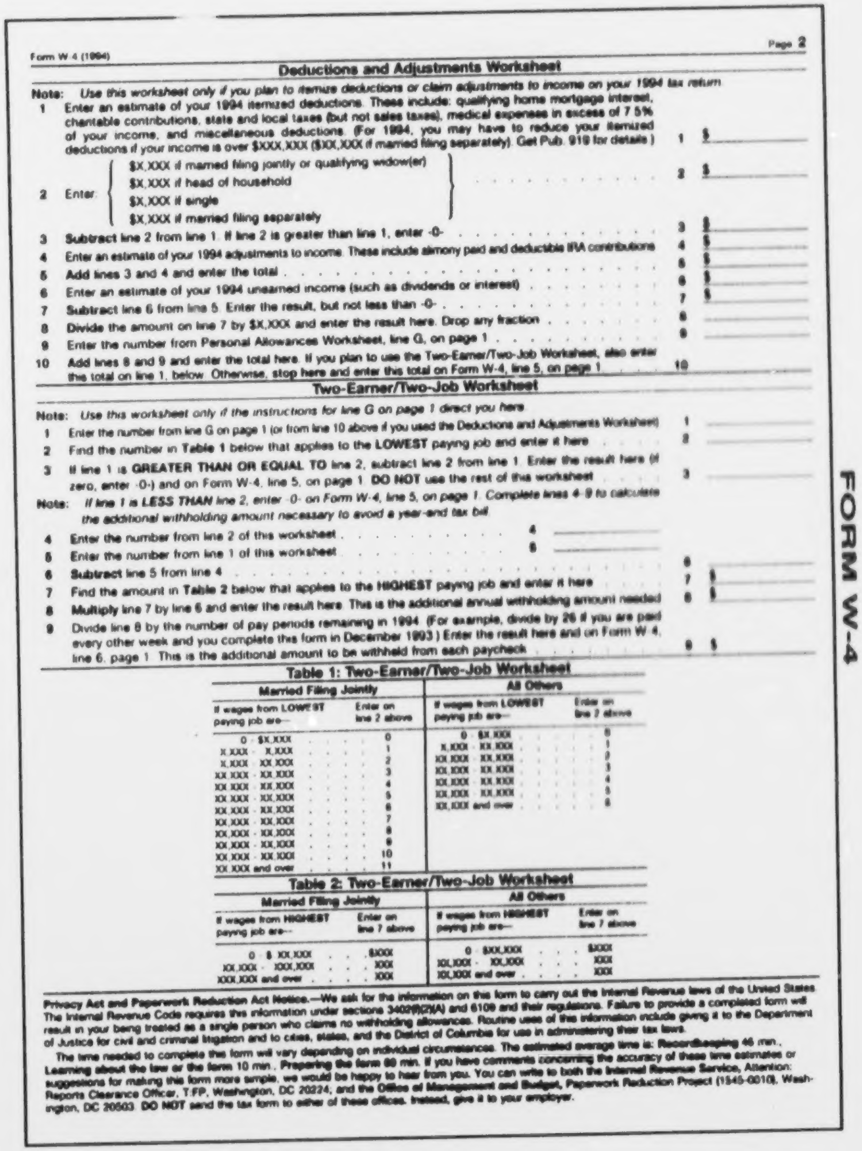
If you meet all of the above conditions, enter "EXEMPT" here . . . . . ▶ **7** ______

Under penalties of perjury, I certify that I am entitled to the number of withholding allowances claimed on this certificate or entitled to claim exempt status.

Employee's signature ▶   **Date** ▶ , 19

8 Employer's name and address (Employer: Complete 8 and 10 only if sending to the IRS)
9 Office code (optional)
10 Employer identification number

Cat. No. 10220Q



Form W-4 (1994)   Page **2**

Deductions and Adjustments Worksheet

Note: *Use this worksheet only if you plan to itemize deductions or claim adjustments to income on your 1994 tax return.*

1 Enter an estimate of your 1994 itemized deductions. These include: qualifying home mortgage interest, charitable contributions, state and local taxes (but not sales taxes), medical expenses in excess of 7.5% of your income, and miscellaneous deductions. (For 1994, you may have to reduce your itemized deductions if your income is over $XXX,XXX ($XX,XXX if married filing separately). Get Pub. 919 for details.) . . **1** $ ______

2 Enter: { $X,XXX if married filing jointly or qualifying widow(er) / $X,XXX if head of household / $X,XXX if single / $X,XXX if married filing separately } . . . . . **2** $ ______

3 **Subtract** line 2 from line 1. If line 2 is greater than line 1, enter -0- . . . . . **3** $ ______

4 Enter an estimate of your 1994 adjustments to income. These include alimony paid and deductible IRA contributions **4** $ ______

5 **Add** lines 3 and 4 and enter the total . . . . . **5** $ ______

6 Enter an estimate of your 1994 unearned income (such as dividends or interest) . . . . . **6** $ ______

7 **Subtract** line 6 from line 5. Enter the result, but not less than -0- . . . . . **7** $ ______

8 **Divide** the amount on line 7 by $X,XXX and enter the result here. Drop any fraction . . . . . **8** ______

9 Enter the number from Personal Allowances Worksheet, line G, on page 1 . . . . . **9** ______

10 **Add** lines 8 and 9 and enter the total here. If you plan to use the Two-Earner/Two-Job Worksheet, also enter the total on line 1, below. Otherwise, **stop here** and enter this total on Form W-4, line 5, on page 1 . . . . . **10** ______

Two-Earner/Two-Job Worksheet

Note: *Use this worksheet only if the instructions for line G on page 1 direct you here.*

1 Enter the number from line G on page 1 (or from line 10 above if you used the Deductions and Adjustments Worksheet) **1** ______

2 Find the number in **Table 1** below that applies to the **LOWEST** paying job and enter it here . . . . . **2** ______

3 If line 1 is **GREATER THAN OR EQUAL TO** line 2, subtract line 2 from line 1. Enter the result here (if zero, enter -0-) and on Form W-4, line 5, on page 1. **DO NOT** use the rest of this worksheet . . . . . **3** ______

Note: *If line 1 is **LESS THAN** line 2, enter -0- on Form W-4, line 5, on page 1. Complete lines 4-9 to calculate the additional withholding amount necessary to avoid a year-end tax bill.*

4 Enter the number from line 2 of this worksheet . . . . . **4** ______

5 Enter the number from line 1 of this worksheet . . . . . **5** ______

6 **Subtract** line 5 from line 4 . . . . . **6** ______

7 Find the amount in **Table 2** below that applies to the **HIGHEST** paying job and enter it here . . . . . **7** $ ______

8 **Multiply** line 7 by line 6 and enter the result here. This is the additional annual withholding amount needed **8** $ ______

9 Divide line 8 by the number of pay periods remaining in 1994. (For example, divide by 26 if you are paid every other week and you complete this form in December 1993.) Enter the result here and on Form W-4, line 6, page 1. This is the additional amount to be withheld from each paycheck . . . . . **9** $ ______

Table 1: Two-Earner/Two-Job Worksheet

Married Filing Jointly		All Others	
If wages from LOWEST paying job are—	Enter on line 2 above	If wages from LOWEST paying job are—	Enter on line 2 above
0 - $X,XXX	0	0 - $X,XXX	0
X,XXX - X,XXX	1	X,XXX - XX,XXX	1
X,XXX - XX,XXX	2	XX,XXX - XX,XXX	2
XX,XXX - XX,XXX	3	XX,XXX - XX,XXX	3
XX,XXX - XX,XXX	4	XX,XXX - XX,XXX	4
XX,XXX - XX,XXX	5	XX,XXX - XX,XXX	5
XX,XXX - XX,XXX	6	XX,XXX and over	6
XX,XXX - XX,XXX	7		
XX,XXX - XX,XXX	8		
XX,XXX - XX,XXX	9		
XX,XXX - XX,XXX	10		
XX,XXX and over	11		

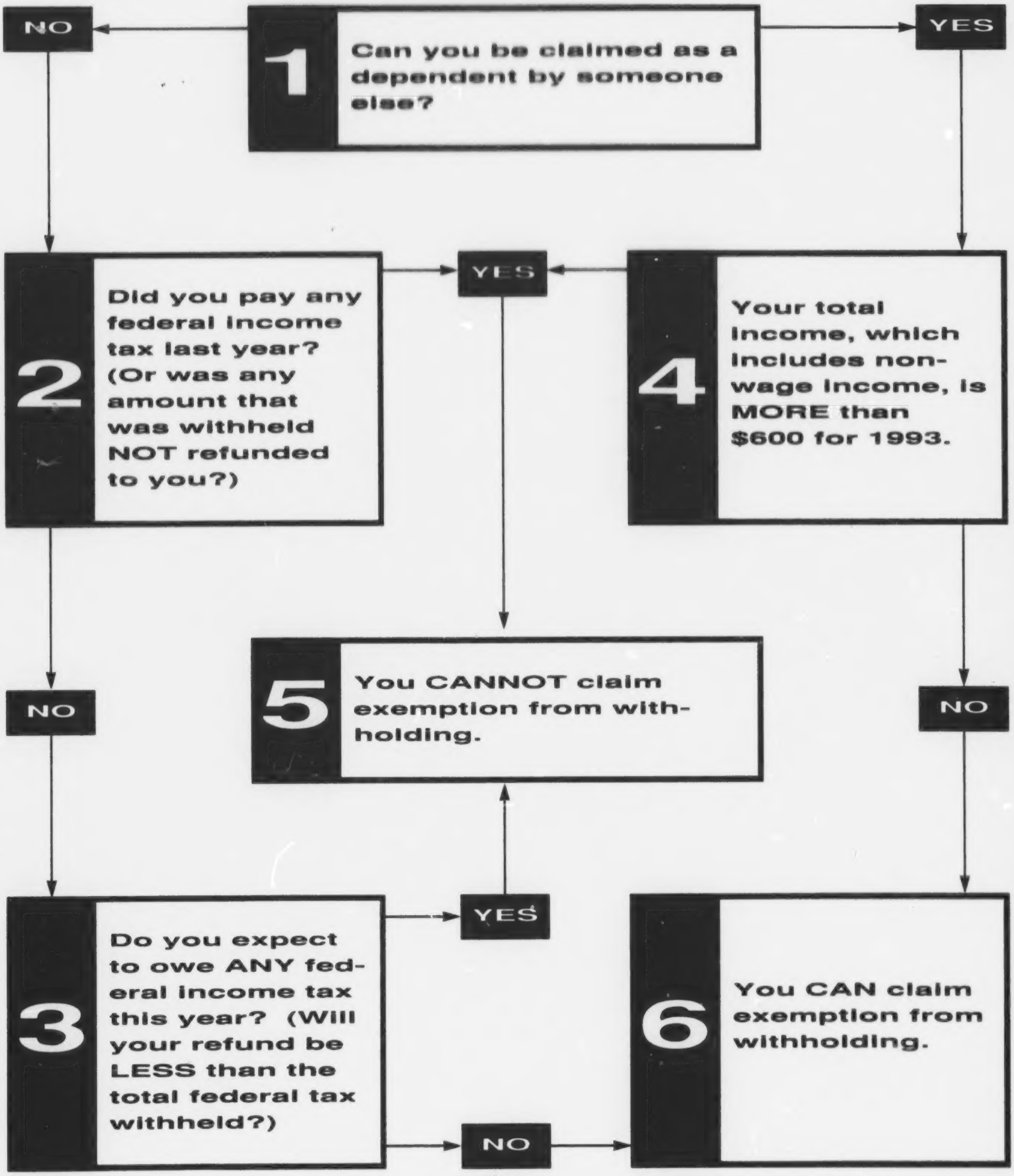
Table 2: Two-Earner/Two-Job Worksheet

Married Filing Jointly		All Others	
If wages from HIGHEST paying job are—	Enter on line 7 above	If wages from HIGHEST paying job are—	Enter on line 7 above
0 - $ XX,XXX	$XXX	0 - $XX,XXX	$XXX
XX,XXX - XXX,XXX	XXX	XX,XXX - XX,XXX	XXX
XXX,XXX and over	XXX	XX,XXX and over	XXX

Privacy Act and Paperwork Reduction Act Notice.—We ask for the information on this form to carry out the Internal Revenue laws of the United States. The Internal Revenue Code requires this information under sections 3402(f)(2)(A) and 6109 and their regulations. Failure to provide a completed form will result in your being treated as a single person who claims no withholding allowances. Routine uses of this information include giving it to the Department of Justice for civil and criminal litigation and to cities, states, and the District of Columbia for use in administering their tax laws.

The time needed to complete this form will vary depending on individual circumstances. The estimated average time is: Recordkeeping 46 min., Learning about the law or the form 10 min., Preparing the form 69 min. If you have comments concerning the accuracy of these time estimates or suggestions for making this form more simple, we would be happy to hear from you. You can write to both the Internal Revenue Service, Attention: Reports Clearance Officer, T:FP, Washington, DC 20224; and the Office of Management and Budget, Paperwork Reduction Project (1545-0010), Washington, DC 20503. **DO NOT** send the tax form to either of these offices. Instead, give it to your employer.

ARE YOU EXEMPT FROM WITHHOLDING?



1 Can you be claimed as a dependent by someone else?

2 Did you pay any federal income tax last year? (Or was any amount that was withheld NOT refunded to you?)

3 Do you expect to owe ANY federal income tax this year? (Will your refund be LESS than the total federal tax withheld?)

4 Your total income, which includes non-wage income, is MORE than $600 for 1993.

5 You CANNOT claim exemption from withholding.

6 You CAN claim exemption from withholding.

THE DEPENDENCY TESTS

There are five tests to determine whether someone is your dependent: member of household or relationship, joint return, citizenship, gross income, and support tests.

Each dependent must meet all five of the following tests:

Test 1: Relationship or Member of Household

Your dependent must be either your relative or someone who lived in your home as a member of your household all year; the relationship must not violate local law.

The following are considered your relatives:

- Your child. Your child includes your son, daughter, stepchild, adopted child; a child who lived in your home as a family member, if placed with you by an authorized placement agency for legal adoption; or a foster child (any child who lived in your home as a family member for the whole year).
- Your grandchild, great-grandchild, etc.
- Your son-in-law, daughter-in-law.
- Your parent, grandparent.
- Your brother, sister, stepbrother, stepsister, brother-in-law, sister-in-law, half-brother, half-sister, stepparent, parent-in-law.
- If related by blood, your aunt, uncle, nephew, niece.
- Any person, related or not, who was a member of your household for the entire year, except for anyone who was your spouse at any time during the year.

Test 2: Gross Income Test

If your child is under 19 at the end of the tax year, or under 24 and a full-time student, he or she does not have to meet this test.
Your child age 19 to 24 who is not a full-time student, or who was over age 24, can meet this test only if his or her gross income was less than $2,350 for 1993.

Other relatives or household members must have gross incomes of less than $2,350 for 1993.

Test 3: Support Test

An individual may meet the support test if you contribute more than 50% of his or her total support during the calendar year.
If you contributed more than 10% of someone's support, and together with others contributed more than half, you or one of the others who contributed more than 10% may meet the support test. You and the other contributors have to decide who will claim the person as a dependent provided the other four tests are met.

If you, either alone or together with others, contributed less than 50% of someone's support, you cannot claim that person as a dependent.

Test 4: Citizenship or Resident Test

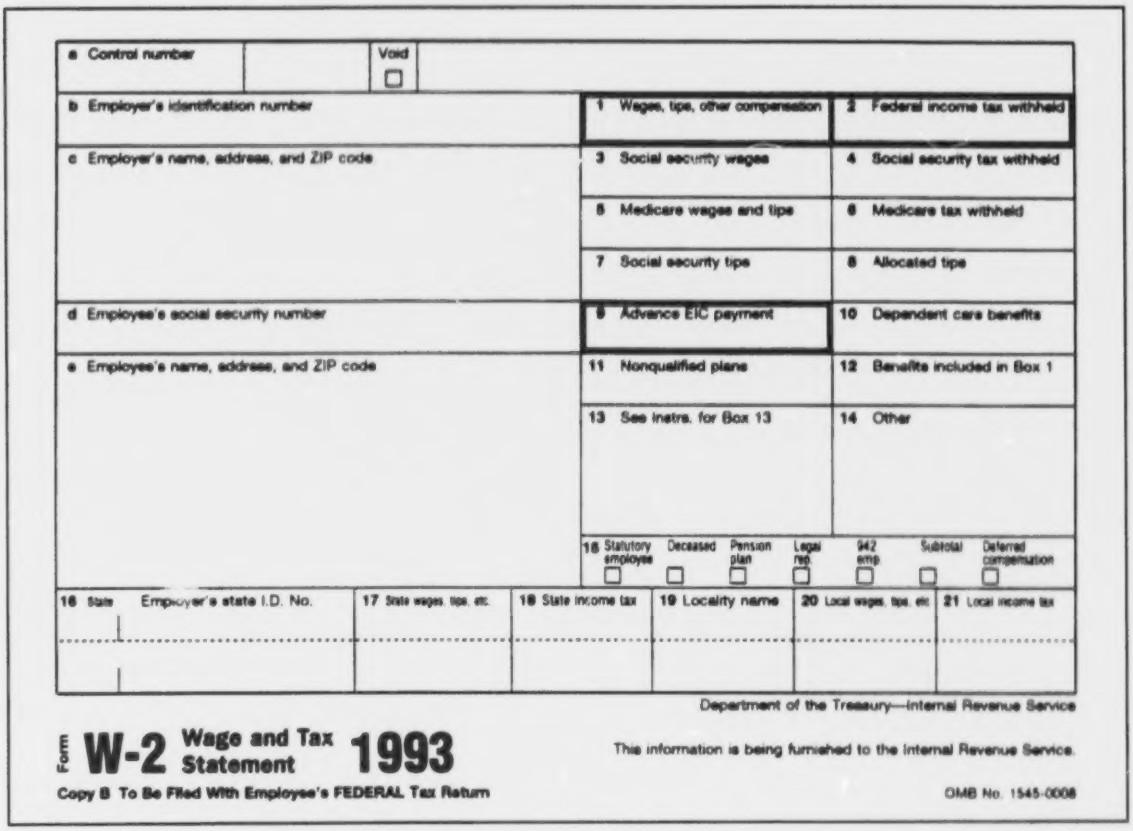
The dependent must be either a U.S. citizen, or a resident alien, or a resident of Canada or Mexico, or your adopted child who is not a U.S. citizen, but who lived with you all year in a foreign country.

Test 5: Joint Return Test

Your married dependent cannot file a joint return with his or her spouse.

Note: However, if neither the dependent nor the dependent's spouse is required to file, but they file a joint return only to get a refund of all tax withheld, you may claim him or her if the other four tests are met.

FORM W-2



a Control number		Void ☐
b Employer's identification number	1 Wages, tips, other compensation	2 Federal income tax withheld
c Employer's name, address, and ZIP code	3 Social security wages	4 Social security tax withheld
	5 Medicare wages and tips	6 Medicare tax withheld
	7 Social security tips	8 Allocated tips
d Employee's social security number	9 Advance EIC payment	10 Dependent care benefits
e Employee's name, address, and ZIP code	11 Nonqualified plans	12 Benefits included in Box 1
	13 See instrs. for Box 13	14 Other
	15 Statutory employee ☐ Deceased ☐ Pension plan ☐ Legal rep. ☐ 942 emp. ☐ Subtotal ☐ Deferred compensation ☐	

16 State	Employer's state I.D. No.	17 State wages, tips, etc.	18 State income tax	19 Locality name	20 Local wages, tips, etc.	21 Local income tax

Department of the Treasury—Internal Revenue Service

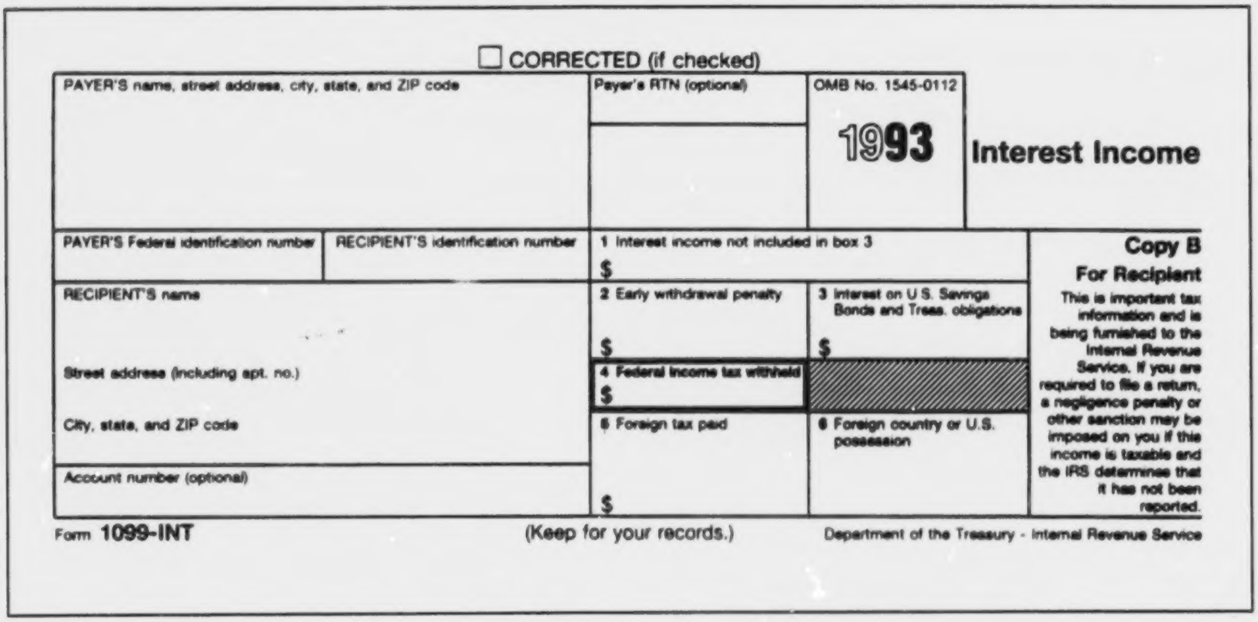
Form **W-2** Wage and Tax Statement **1993**

This information is being furnished to the Internal Revenue Service.

Copy B To Be Filed With Employee's FEDERAL Tax Return

OMB No. 1545-0008

FORM 1099-INT
(HANDOUT 3.5 CONTINUED)



☐ CORRECTED (if checked)

PAYER'S name, street address, city, state, and ZIP code

Payer's RTN (optional)

OMB No. 1545-0112

1993

Interest Income

PAYER'S Federal identification number

RECIPIENT'S identification number

1 Interest income not included in box 3
$

Copy B

For Recipient

This is important tax information and is being furnished to the Internal Revenue Service. If you are required to file a return, a negligence penalty or other sanction may be imposed on you if this income is taxable and the IRS determines that it has not been reported.

RECIPIENT'S name

2 Early withdrawal penalty
$

3 Interest on U.S. Savings Bonds and Treas. obligations
$

Street address (including apt. no.)

4 Federal income tax withheld
$

City, state, and ZIP code

5 Foreign tax paid
$

6 Foreign country or U.S. possession

Account number (optional)

Form 1099-INT (Keep for your records.) Department of the Treasury - Internal Revenue Service

CASE STUDIES

Case Study A

Jay R. Jones of 100 First Street, Metropolis, Idaho, 83603, is single and works a few hours each month at his uncle's shop. He is a full-time student. Jay had no income tax liability last year, but he expects to earn between $300 and $400 in wages this year. He has no other income, and his parents claim him as a dependent on their tax return. His social security number is 999-00-1234. Fill out a correct Form W-4 for Jay.

Case Study B

Jane J. Johnson of 24 Straight Street in Bigtown, Maine, 04748, is single and expects to earn about $12,000 this year as a laborer. She earned a little less last year, but did pay income tax. No one claims Jane as a dependent, and she has no dependents. Her social security number is 999-00-5678. Fill out a correct Form W-4 for Jane. She has only one employer.

Case Study C

Using this Form W-2 information, complete Form 1040EZ for Joe Day. He is single and is claimed as a dependent on his parents' return. He wants to contribute $3 to the Presidential Election Campaign Fund.

W-2 information:

Joseph K. Day
615 Poplar Drive, Goodtown, OH 45201
SS# 987-00-4321
Super Service Station
702 Main Street, Goodtown, OH 45201

Employer ID#	10-000-1233
Fed. income tax withheld	$30
Wages	$2,250
SS wages	$2,250
Medicare wages and tips	$2,250
SS tax withheld	$139.50
Medicare tax withheld	$32.63

Case Study D

Using this W-2 and 1099-INT information, fill out a correct Form 1040EZ for Susan A. Black. She is single and cannot be claimed as a dependent on another person's return. She wants $3 to go to the Presidential Election Campaign Fund.

W-2 information:

Susan A. Black
601 Turnbolt Street, Robin, MI 48200
SS# 987-00-2080
ABC Stores
2001 Bent Road, Robin, MI 48200
Employer's ID# 10-000-1234
1099-INT information:
Town Bank, 5 State Street, Robin, MI 48200

Interest income	$45
Payer's or Federal ID#	10-1112222
Fed. income tax withheld	$745
Wages	$9,672
SS tax withheld	$599.66
Medicare tax withheld	$140.24
SS wages	$9,672
Medicare wages and tips	$9,672

Case Study E

Use the following information to complete Form 1040A for Eric H. Richards. Eric is 16 years old, single, and has good eyesight. He worked as a clerk and earned a total of $3,200 as reported on the Form W-2. He can be claimed as a dependent on his parents' return. He wants to contribute $3 to the Presidential Election Campaign Fund. Here is his full name and address, his social security number, the amount withheld from his pay by his employer, and the amount of interest he received on his savings account at Bryan National Bank.

Eric H. Richards
514 Tenth Street, Bryan, KY 54612
SS# 059-00-3212

Amount of federal income tax withheld and reported on Form W-2	$145
Interest income reported on Form 1099-INT	$900

Case Study F

Use this Form W-2 and Form 1099-INT information to complete Form 1040A for Lisa M. Sample, who is single, is claimed by her parents as a dependent on their return, and does not want to contribute to the Presidential Election Campaign Fund.

W-2 information:

Lisa M. Sample
215 Rogers Street, Garden, LA 64312

SS#	821-00-1234

Garden Center
500 Rose Lane, Garden, LA 64312

Employer's ID#	10-5551212

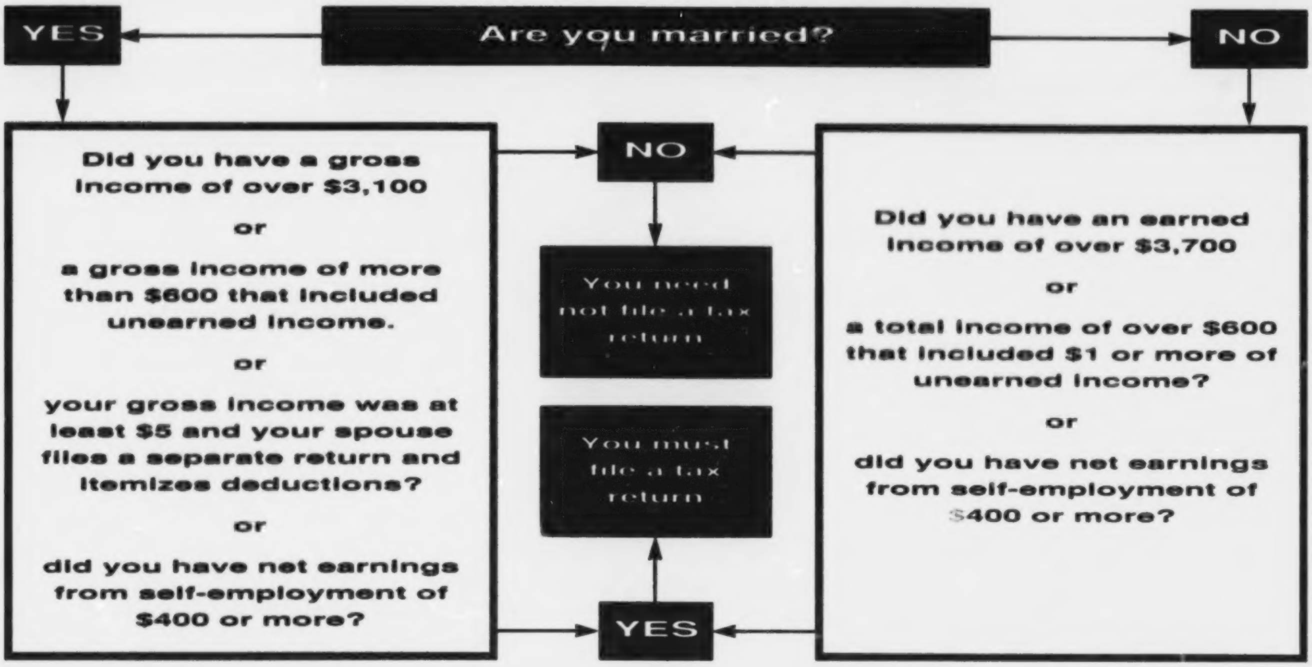
1099-INT information:
Garden National Bank
101 Main St., Garden, LA 64312

Payer's ID#	10-1234567
Fed. income taxes withheld	$12
Wages	$1,950
SS tax withheld	$120.90
Medicare tax withheld	$28.28
SS wages	$1,950
Interest income	$817
SS wages	$1,950
Medicare wages and tips	$1,950

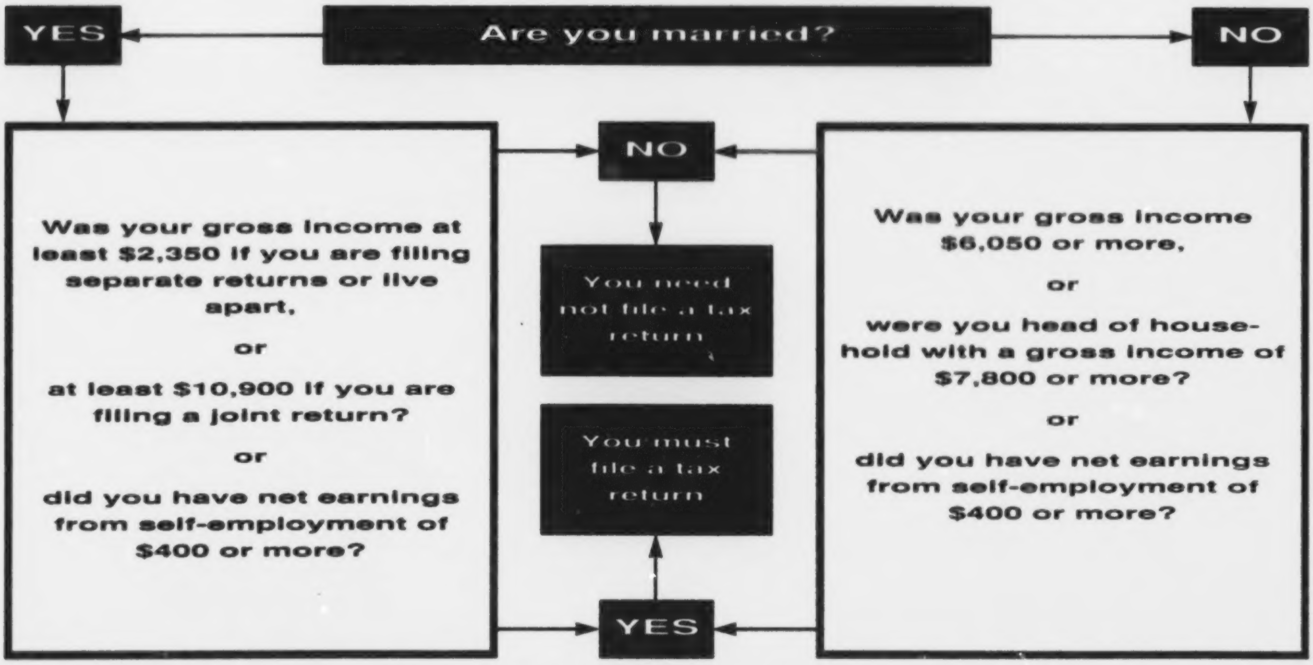
SHOULD YOU FILE A TAX RETURN?

Not everyone needs to file a tax return. Use the diagrams below to decide whether you need to file or not. Remember, however, that it is necessary to file a return to get a refund of any tax withheld from any pay you earned, even if your total income does not require filing a return.

1. Assuming that you are under age 65 and not blind, can you be claimed as a dependent on someone else's return? If the answer is "yes," then…


Are you married?
YES
NO
Did you have a gross income of over $3,100
or
a gross income of more than $600 that included unearned income.
or
your gross income was at least $5 and your spouse files a separate return and itemizes deductions?
or
did you have net earnings from self-employment of $400 or more?
NO
You need not file a tax return
You must file a tax return
YES
Did you have an earned income of over $3,700
or
a total income of over $600 that included $1 or more of unearned income?
or
did you have net earnings from self-employment of $400 or more?

2. Assuming that you are under 65 and not blind, can you be claimed as a dependent on someone else's return? If the answer is "no," then…

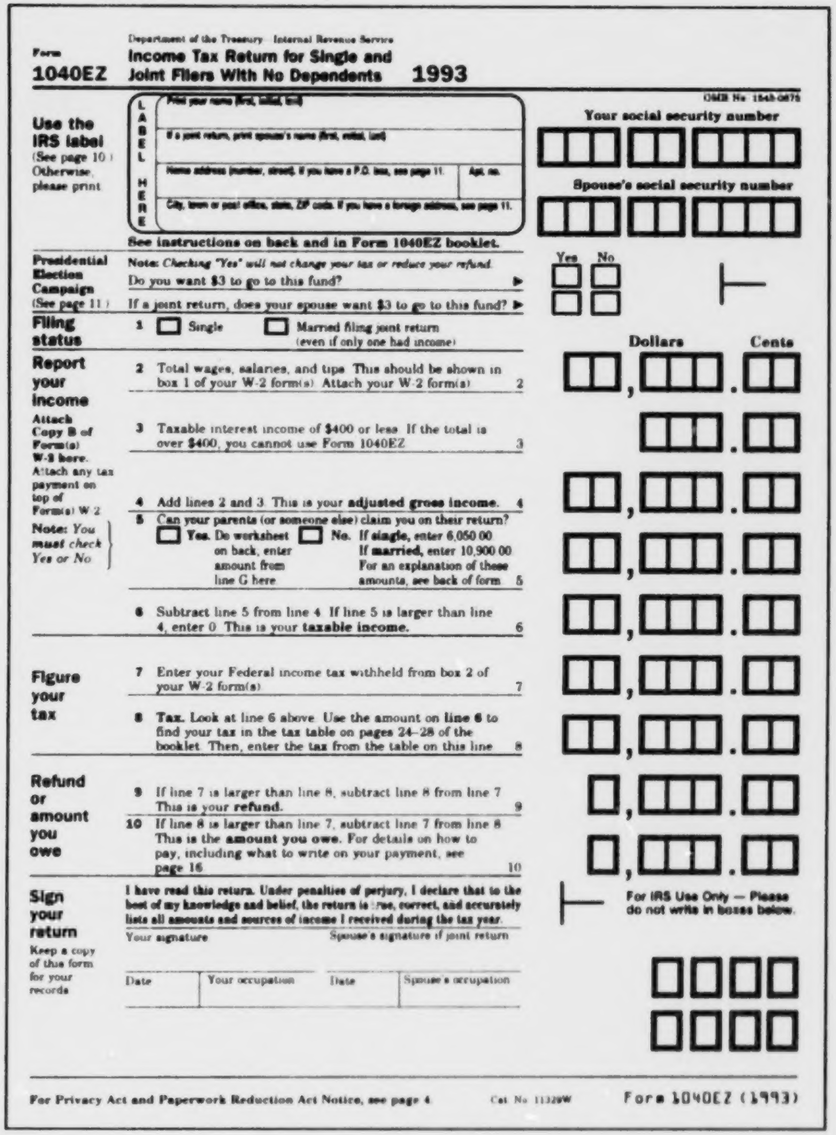

Are you married?
YES
NO
Was your gross income at least $2,350 if you are filing separate returns or live apart,
or
at least $10,900 if you are filing a joint return?
or
did you have net earnings from self-employment of $400 or more?
NO
You need not file a tax return
You must file a tax return
YES
Was your gross income $6,050 or more,
or
were you head of household with a gross income of $7,800 or more?
or
did you have net earnings from self-employment of $400 or more?

The income amounts listed are for 1993. They may change each year and should be checked.

WHICH TAX RETURN FORM SHOULD YOU USE?

	FILING STATUS	NUMBER OF EXEMPTIONS	TAXABLE INCOME	SOURCES OF INCOME LIMITED TO	ADJUSTMENTS, DEDUCTIONS, OTHER TAXES AND CREDITS
1040EZ	single or married filing jointly under age 65 and not blind	single—claim only one exemption, for yourself; married—claiming two exemptions	less than $50,000	wages, salaries, tips, taxable scholarship and fellowship grants, and not more than $400 of taxable interest income	no income adjustment, itemized deductions, other taxes or credits
1040A	single, or married filing joint or separate returns, head of household, qualifying widow or widower	all eligible exemptions	less than $50,000	wages, salaries, tips, taxable scholarship and fellowship grants, interest, dividends, pensions, annuities, IRAs, unemployment compensation, taxable social security and railroad retirement benefits	certain IRA contributions, advance earned income credit, child and dependent care credit, credit for the elderly or disabled, no itemized deductions
1040	single, or married filing joint or separate returns, head of household, qualifying widow or widower	all eligible exemptions	any taxable amount	all sources listed for 1040A plus all other sources such as rents, gain from sale of house, alimony, self-employment, etc.	all adjustments to income itemized deductions other taxes and credits

FORM 1040-EZ



Form **1040EZ**

Department of the Treasury · Internal Revenue Service

Income Tax Return for Single and Joint Filers With No Dependents **1993**

OMB No. 1545-0675

Use the IRS label (See page 10.) Otherwise, please print

LABEL HERE

Print your name (first, initial, last)

If a joint return, print spouse's name (first, initial, last)

Home address (number, street). If you have a P.O. box, see page 11. | Apt. no.

City, town or post office, state, ZIP code. If you have a foreign address, see page 11.

Your social security number

Spouse's social security number

See instructions on back and in Form 1040EZ booklet.

Presidential Election Campaign (See page 11.)

Note: *Checking "Yes" will not change your tax or reduce your refund.*

	Yes	No
Do you want $3 to go to this fund? ▶	☐	☐
If a joint return, does your spouse want $3 to go to this fund? ▶	☐	☐

Filing status

1 ☐ Single ☐ Married filing joint return (even if only one had income)

Dollars Cents

Report your income

Attach Copy B of Form(s) W-2 here. Attach any tax payment on top of Form(s) W-2.

Note: You must check Yes or No

2 Total wages, salaries, and tips. This should be shown in box 1 of your W-2 form(s). Attach your W-2 form(s). 2

3 Taxable interest income of $400 or less. If the total is over $400, you cannot use Form 1040EZ. 3

4 Add lines 2 and 3. This is your **adjusted gross income.** 4

5 Can your parents (or someone else) claim you on their return?
☐ **Yes.** Do worksheet on back, enter amount from line G here.
☐ **No.** If **single,** enter 6,050.00. If **married,** enter 10,900.00. For an explanation of these amounts, see back of form. 5

6 Subtract line 5 from line 4. If line 5 is larger than line 4, enter 0. This is your **taxable income.** 6

Figure your tax

7 Enter your Federal income tax withheld from box 2 of your W-2 form(s). 7

8 **Tax.** Look at line 6 above. Use the amount on **line 6** to find your tax in the tax table on pages 24–28 of the booklet. Then, enter the tax from the table on this line. 8

Refund or amount you owe

9 If line 7 is larger than line 8, subtract line 8 from line 7. This is your **refund.** 9

10 If line 8 is larger than line 7, subtract line 7 from line 8. This is the **amount you owe.** For details on how to pay, including what to write on your payment, see page 16. 10

Sign your return

Keep a copy of this form for your records.

I have read this return. Under penalties of perjury, I declare that to the best of my knowledge and belief, the return is true, correct, and accurately lists all amounts and sources of income I received during the tax year.

Your signature | Spouse's signature if joint return

Date	Your occupation	Date	Spouse's occupation

For IRS Use Only — Please do not write in boxes below.

For Privacy Act and Paperwork Reduction Act Notice, see page 4. Cat. No. 11329W Form 1040EZ (1993)

1993 **Instructions for Form 1040EZ**

Use this form if

- Your filing status is single or married filing jointly.
- You (and your spouse if married) were under 65 on January 1, 1994, and not blind at the end of 1993.
- You do not claim any dependents.
- Your taxable income (line 6) is less than $50,000.
- You had **only** wages, salaries, tips, and taxable scholarship or fellowship grants, and your taxable interest income was $400 or less. **But** if you earned tips, including allocated tips, that are not included in box 5 and box 7 of your W-2, you may not be able to use Form 1040EZ. See page 13.
- You did not receive any advance earned income credit payments.

Caution: *If married and either you or your spouse had total wages of over $57,600, you may not be able to use this form. See page 6.*

If you are not sure about your filing status, see page 12. If you have questions about dependents, call Tele-Tax (see page 22) and listen to topic 354. **If you can't use this form,** call Tele-Tax (see page 22) and listen to topic 352.

Filling in your return

Because this form is read by a machine, please print your numbers inside the boxes like this:

9 8 7 6 5 4 3 2 1 0

Do not type your numbers. Do not use dollar signs.

Most people can fill in the form by following the instructions on the front. But you will have to use the booklet if you received a scholarship or fellowship grant or tax-exempt interest income, such as on municipal bonds. Also, use the booklet if you received a Form 1099-INT showing income tax withheld (backup withholding).

Remember, you must report all wages, salaries, and tips even if you don't get a W-2 form from your employer. You must also report all your taxable interest income, including interest from banks, savings and loans, credit unions, etc., even if you don't get a Form 1099-INT.

If you paid someone to prepare your return, see page 17.

Worksheet for dependents who checked "Yes" on line 5

Use this worksheet to figure the amount to enter on line 5 if someone can claim you (or your spouse if married) as a dependent, even if that person chooses not to do so. To find out if someone can claim you as a dependent, call Tele-Tax (see page 22) and listen to topic 354.

A. Enter the amount from line 2 on the front.	A.	
B. Minimum standard deduction.	B.	600.00
C. Enter the LARGER of line A or line B here.	C.	
D. Maximum standard deduction. If single, enter 3,700.00; if married, enter 6,200.00.	D.	
E. Enter the SMALLER of line C or line D here. This is your standard deduction.	E.	
F. Exemption amount. • If single, enter 0. • If married and both you and your spouse can be claimed as dependents, enter 0. • If married and only one of you can be claimed as a dependent, enter 2,350.00.	F.	
G. Add lines E and F. Enter the total here and on line 5 on the front.	G.	

If you checked "No" on line 5 because no one can claim you (or your spouse if married) as a dependent, enter on line 5 the amount shown below that applies to you.

- Single, enter 6,050.00. This is the total of your standard deduction (3,700.00) and personal exemption (2,350.00).
- Married, enter 10,900.00. This is the total of your standard deduction (6,200.00), exemption for yourself (2,350.00), and exemption for your spouse (2,350.00).

Avoid mistakes

Please see page 17 of the Form 1040EZ booklet for a list of common mistakes to avoid that will help you make sure your form is filled in correctly.

Mailing your return

Mail your return by **April 15, 1994.** Use the envelope that came with your booklet. If you don't have that envelope, see page 29 for the address to use.

BEST COPY AVAILABLE

SECTION 7. TAX TABLES

Section 7.

1993 Tax Table

Use if your taxable income is less than $100,000. If $100,000 or more, use the Tax Rate Schedules.

Example. Mr. and Mrs. Brown are filing a joint return. Their taxable income on line 37 of Form 1040 is $25,300. First, they find the $25,300–25,350 income line. Next, they find the column for married filing jointly and read down the column. The amount shown where the income line and filing status column meet is $3,799. This is the tax amount they must enter on line 38 of their Form 1040.

Sample Table

At least	But less than	Single	Married filing jointly *	Married filing separately	Head of a household
		Your tax is—			
25,200	25,250	4,190	3,784	4,665	3,784
25,250	25,300	4,204	3,791	4,679	3,791
25,300	25,350	4,218	3,799	4,693	3,799
25,350	25,400	4,232	3,806	4,707	3,806

If line 37 (taxable income) is—		And you are—			
At least	But less than	Single	Married filing jointly *	Married filing separately	Head of a household
		Your tax is—			
0	5	0	0	0	0
5	15	2	2	2	2
15	25	3	3	3	3
25	50	6	6	6	6
50	75	9	9	9	9
75	100	13	13	13	13
100	125	17	17	17	17
125	150	21	21	21	21
150	175	24	24	24	24
175	200	28	28	28	28
200	225	32	32	32	32
225	250	36	36	36	36
250	275	39	39	39	39
275	300	43	43	43	43
300	325	47	47	47	47
325	350	51	51	51	51
350	375	54	54	54	54
375	400	58	58	58	58
400	425	62	62	62	62
425	450	66	66	66	66
450	475	69	69	69	69
475	500	73	73	73	73
500	525	77	77	77	77
525	550	81	81	81	81
550	575	84	84	84	84
575	600	88	88	88	88
600	625	92	92	92	92
625	650	96	96	96	96
650	675	99	99	99	99
675	700	103	103	103	103
700	725	107	107	107	107
725	750	111	111	111	111
750	775	114	114	114	114
775	800	118	118	118	118
800	825	122	122	122	122
825	850	126	126	126	126
850	875	129	129	129	129
875	900	133	133	133	133
900	925	137	137	137	137
925	950	141	141	141	141
950	975	144	144	144	144
975	1,000	148	148	148	148
1,000					
1,000	1,025	152	152	152	152
1,025	1,050	156	156	156	156
1,050	1,075	159	159	159	159
1,075	1,100	163	163	163	163
1,100	1,125	167	167	167	167
1,125	1,150	171	171	171	171
1,150	1,175	174	174	174	174
1,175	1,200	178	178	178	178
1,200	1,225	182	182	182	182
1,225	1,250	186	186	186	186
1,250	1,275	189	189	189	189
1,275	1,300	193	193	193	193
1,300	1,325	197	197	197	197
1,325	1,350	201	201	201	201
1,350	1,375	204	204	204	204
1,375	1,400	208	208	208	208
1,400	1,425	212	212	212	212
1,425	1,450	216	216	216	216
1,450	1,475	219	219	219	219
1,475	1,500	223	223	223	223
1,500	1,525	227	227	227	227
1,525	1,550	231	231	231	231
1,550	1,575	234	234	234	234
1,575	1,600	238	238	238	238
1,600	1,625	242	242	242	242
1,625	1,650	246	246	246	246
1,650	1,675	249	249	249	249
1,675	1,700	253	253	253	253
1,700	1,725	257	257	257	257
1,725	1,750	261	261	261	261
1,750	1,775	264	264	264	264
1,775	1,800	268	268	268	268
1,800	1,825	272	272	272	272
1,825	1,850	276	276	276	276
1,850	1,875	279	279	279	279
1,875	1,900	283	283	283	283
1,900	1,925	287	287	287	287
1,925	1,950	291	291	291	291
1,950	1,975	294	294	294	294
1,975	2,000	298	298	298	298
2,000					
2,000	2,025	302	302	302	302
2,025	2,050	306	306	306	306
2,050	2,075	309	309	309	309
2,075	2,100	313	313	313	313
2,100	2,125	317	317	317	317
2,125	2,150	321	321	321	321
2,150	2,175	324	324	324	324
2,175	2,200	328	328	328	328
2,200	2,225	332	332	332	332
2,225	2,250	336	336	336	336
2,250	2,275	339	339	339	339
2,275	2,300	343	343	343	343
2,300	2,325	347	347	347	347
2,325	2,350	351	351	351	351
2,350	2,375	354	354	354	354
2,375	2,400	358	358	358	358
2,400	2,425	362	362	362	362
2,425	2,450	366	366	366	366
2,450	2,475	369	369	369	369
2,475	2,500	373	373	373	373
2,500	2,525	377	377	377	377
2,525	2,550	381	381	381	381
2,550	2,575	384	384	384	384
2,575	2,600	388	388	388	388
2,600	2,625	392	392	392	392
2,625	2,650	396	396	396	396
2,650	2,675	399	399	399	399
2,675	2,700	403	403	403	403
2,700	2,725	407	407	407	407
2,725	2,750	411	411	411	411
2,750	2,775	414	414	414	414
2,775	2,800	418	418	418	418
2,800	2,825	422	422	422	422
2,825	2,850	426	426	426	426
2,850	2,875	429	429	429	429
2,875	2,900	433	433	433	433
2,900	2,925	437	437	437	437
2,925	2,950	441	441	441	441
2,950	2,975	444	444	444	444
2,975	3,000	448	448	448	448
3,000					
3,000	3,050	454	454	454	454
3,050	3,100	461	461	461	461
3,100	3,150	469	469	469	469
3,150	3,200	476	476	476	476
3,200	3,250	484	484	484	484
3,250	3,300	491	491	491	491
3,300	3,350	499	499	499	499
3,350	3,400	506	506	506	506
3,400	3,450	514	514	514	514
3,450	3,500	521	521	521	521
3,500	3,550	529	529	529	529
3,550	3,600	536	536	536	536
3,600	3,650	544	544	544	544
3,650	3,700	551	551	551	551
3,700	3,750	559	559	559	559
3,750	3,800	566	566	566	566
3,800	3,850	574	574	574	574
3,850	3,900	581	581	581	581
3,900	3,950	589	589	589	589
3,950	4,000	596	596	596	596
4,000					
4,000	4,050	604	604	604	604
4,050	4,100	611	611	611	611
4,100	4,150	619	619	619	619
4,150	4,200	626	626	626	626
4,200	4,250	634	634	634	634
4,250	4,300	641	641	641	641
4,300	4,350	649	649	649	649
4,350	4,400	656	656	656	656
4,400	4,450	664	664	664	664
4,450	4,500	671	671	671	671
4,500	4,550	679	679	679	679
4,550	4,600	686	686	686	686
4,600	4,650	694	694	694	694
4,650	4,700	701	701	701	701
4,700	4,750	709	709	709	709
4,750	4,800	716	716	716	716
4,800	4,850	724	724	724	724
4,850	4,900	731	731	731	731
4,900	4,950	739	739	739	739
4,950	5,000	746	746	746	746

Continued on next page

* This column must also be used by a qualifying widow(er).

SECTION 7. TAX TABLES CONTINUED

1993 Tax Table—*Continued*

If line 37 (taxable income) is—		And you are—			
At least	But less than	Single	Married filing jointly *	Married filing separately	Head of a household
		Your tax is—			
5,000					
5,000	5,050	754	754	754	754
5,050	5,100	761	761	761	761
5,100	5,150	769	769	769	769
5,150	5,200	776	776	776	776
5,200	5,250	784	784	784	784
5,250	5,300	791	791	791	791
5,300	5,350	799	799	799	799
5,350	5,400	806	806	806	806
5,400	5,450	814	814	814	814
5,450	5,500	821	821	821	821
5,500	5,550	829	829	829	829
5,550	5,600	836	836	836	836
5,600	5,650	844	844	844	844
5,650	5,700	851	851	851	851
5,700	5,750	859	859	859	859
5,750	5,800	866	866	866	866
5,800	5,850	874	874	874	874
5,850	5,900	881	881	881	881
5,900	5,950	889	889	889	889
5,950	6,000	896	896	896	896
6,000					
6,000	6,050	904	904	904	904
6,050	6,100	911	911	911	911
6,100	6,150	919	919	919	919
6,150	6,200	926	926	926	926
6,200	6,250	934	934	934	934
6,250	6,300	941	941	941	941
6,300	6,350	949	949	949	949
6,350	6,400	956	956	956	956
6,400	6,450	964	964	964	964
6,450	6,500	971	971	971	971
6,500	6,550	979	979	979	979
6,550	6,600	986	986	986	986
6,600	6,650	994	994	994	994
6,650	6,700	1,001	1,001	1,001	1,001
6,700	6,750	1,009	1,009	1,009	1,009
6,750	6,800	1,016	1,016	1,016	1,016
6,800	6,850	1,024	1,024	1,024	1,024
6,850	6,900	1,031	1,031	1,031	1,031
6,900	6,950	1,039	1,039	1,039	1,039
6,950	7,000	1,046	1,046	1,046	1,046
7,000					
7,000	7,050	1,054	1,054	1,054	1,054
7,050	7,100	1,061	1,061	1,061	1,061
7,100	7,150	1,069	1,069	1,069	1,069
7,150	7,200	1,076	1,076	1,076	1,076
7,200	7,250	1,084	1,084	1,084	1,084
7,250	7,300	1,091	1,091	1,091	1,091
7,300	7,350	1,099	1,099	1,099	1,099
7,350	7,400	1,106	1,106	1,106	1,106
7,400	7,450	1,114	1,114	1,114	1,114
7,450	7,500	1,121	1,121	1,121	1,121
7,500	7,550	1,129	1,129	1,129	1,129
7,550	7,600	1,136	1,136	1,136	1,136
7,600	7,650	1,144	1,144	1,144	1,144
7,650	7,700	1,151	1,151	1,151	1,151
7,700	7,750	1,159	1,159	1,159	1,159
7,750	7,800	1,166	1,166	1,166	1,166
7,800	7,850	1,174	1,174	1,174	1,174
7,850	7,900	1,181	1,181	1,181	1,181
7,900	7,950	1,189	1,189	1,189	1,189
7,950	8,000	1,196	1,196	1,196	1,196
8,000					
8,000	8,050	1,204	1,204	1,204	1,204
8,050	8,100	1,211	1,211	1,211	1,211
8,100	8,150	1,219	1,219	1,219	1,219
8,150	8,200	1,226	1,226	1,226	1,226
8,200	8,250	1,234	1,234	1,234	1,234
8,250	8,300	1,241	1,241	1,241	1,241
8,300	8,350	1,249	1,249	1,249	1,249
8,350	8,400	1,256	1,256	1,256	1,256
8,400	8,450	1,264	1,264	1,264	1,264
8,450	8,500	1,271	1,271	1,271	1,271
8,500	8,550	1,279	1,279	1,279	1,279
8,550	8,600	1,286	1,286	1,286	1,286
8,600	8,650	1,294	1,294	1,294	1,294
8,650	8,700	1,301	1,301	1,301	1,301
8,700	8,750	1,309	1,309	1,309	1,309
8,750	8,800	1,316	1,316	1,316	1,316
8,800	8,850	1,324	1,324	1,324	1,324
8,850	8,900	1,331	1,331	1,331	1,331
8,900	8,950	1,339	1,339	1,339	1,339
8,950	9,000	1,346	1,346	1,346	1,346
9,000					
9,000	9,050	1,354	1,354	1,354	1,354
9,050	9,100	1,361	1,361	1,361	1,361
9,100	9,150	1,369	1,369	1,369	1,369
9,150	9,200	1,376	1,376	1,376	1,376
9,200	9,250	1,384	1,384	1,384	1,384
9,250	9,300	1,391	1,391	1,391	1,391
9,300	9,350	1,399	1,399	1,399	1,399
9,350	9,400	1,406	1,406	1,406	1,406
9,400	9,450	1,414	1,414	1,414	1,414
9,450	9,500	1,421	1,421	1,421	1,421
9,500	9,550	1,429	1,429	1,429	1,429
9,550	9,600	1,436	1,436	1,436	1,436
9,600	9,650	1,444	1,444	1,444	1,444
9,650	9,700	1,451	1,451	1,451	1,451
9,700	9,750	1,459	1,459	1,459	1,459
9,750	9,800	1,466	1,466	1,466	1,466
9,800	9,850	1,474	1,474	1,474	1,474
9,850	9,900	1,481	1,481	1,481	1,481
9,900	9,950	1,489	1,489	1,489	1,489
9,950	10,000	1,496	1,496	1,496	1,496
10,000					
10,000	10,050	1,504	1,504	1,504	1,504
10,050	10,100	1,511	1,511	1,511	1,511
10,100	10,150	1,519	1,519	1,519	1,519
10,150	10,200	1,526	1,526	1,526	1,526
10,200	10,250	1,534	1,534	1,534	1,534
10,250	10,300	1,541	1,541	1,541	1,541
10,300	10,350	1,549	1,549	1,549	1,549
10,350	10,400	1,556	1,556	1,556	1,556
10,400	10,450	1,564	1,564	1,564	1,564
10,450	10,500	1,571	1,571	1,571	1,571
10,500	10,550	1,579	1,579	1,579	1,579
10,550	10,600	1,586	1,586	1,586	1,586
10,600	10,650	1,594	1,594	1,594	1,594
10,650	10,700	1,601	1,601	1,601	1,601
10,700	10,750	1,609	1,609	1,609	1,609
10,750	10,800	1,616	1,616	1,616	1,616
10,800	10,850	1,624	1,624	1,624	1,624
10,850	10,900	1,631	1,631	1,631	1,631
10,900	10,950	1,639	1,639	1,639	1,639
10,950	11,000	1,646	1,646	1,646	1,646
11,000					
11,000	11,050	1,654	1,654	1,654	1,654
11,050	11,100	1,661	1,661	1,661	1,661
11,100	11,150	1,669	1,669	1,669	1,669
11,150	11,200	1,676	1,676	1,676	1,676
11,200	11,250	1,684	1,684	1,684	1,684
11,250	11,300	1,691	1,691	1,691	1,691
11,300	11,350	1,699	1,699	1,699	1,699
11,350	11,400	1,706	1,706	1,706	1,706
11,400	11,450	1,714	1,714	1,714	1,714
11,450	11,500	1,721	1,721	1,721	1,721
11,500	11,550	1,729	1,729	1,729	1,729
11,550	11,600	1,736	1,736	1,736	1,736
11,600	11,650	1,744	1,744	1,744	1,744
11,650	11,700	1,751	1,751	1,751	1,751
11,700	11,750	1,759	1,759	1,759	1,759
11,750	11,800	1,766	1,766	1,766	1,766
11,800	11,850	1,774	1,774	1,774	1,774
11,850	11,900	1,781	1,781	1,781	1,781
11,900	11,950	1,789	1,789	1,789	1,789
11,950	12,000	1,796	1,796	1,796	1,796
12,000					
12,000	12,050	1,804	1,804	1,804	1,804
12,050	12,100	1,811	1,811	1,811	1,811
12,100	12,150	1,819	1,819	1,819	1,819
12,150	12,200	1,826	1,826	1,826	1,826
12,200	12,250	1,834	1,834	1,834	1,834
12,250	12,300	1,841	1,841	1,841	1,841
12,300	12,350	1,849	1,849	1,849	1,849
12,350	12,400	1,856	1,856	1,856	1,856
12,400	12,450	1,864	1,864	1,864	1,864
12,450	12,500	1,871	1,871	1,871	1,871
12,500	12,550	1,879	1,879	1,879	1,879
12,550	12,600	1,886	1,886	1,886	1,886
12,600	12,650	1,894	1,894	1,894	1,894
12,650	12,700	1,901	1,901	1,901	1,901
12,700	12,750	1,909	1,909	1,909	1,909
12,750	12,800	1,916	1,916	1,916	1,916
12,800	12,850	1,924	1,924	1,924	1,924
12,850	12,900	1,931	1,931	1,931	1,931
12,900	12,950	1,939	1,939	1,939	1,939
12,950	13,000	1,946	1,946	1,946	1,946
13,000					
13,000	13,050	1,954	1,954	1,954	1,954
13,050	13,100	1,961	1,961	1,961	1,961
13,100	13,150	1,969	1,969	1,969	1,969
13,150	13,200	1,976	1,976	1,976	1,976
13,200	13,250	1,984	1,984	1,984	1,984
13,250	13,300	1,991	1,991	1,991	1,991
13,300	13,350	1,999	1,999	1,999	1,999
13,350	13,400	2,006	2,006	2,006	2,006
13,400	13,450	2,014	2,014	2,014	2,014
13,450	13,500	2,021	2,021	2,021	2,021
13,500	13,550	2,029	2,029	2,029	2,029
13,550	13,600	2,036	2,036	2,036	2,036
13,600	13,650	2,044	2,044	2,044	2,044
13,650	13,700	2,051	2,051	2,051	2,051
13,700	13,750	2,059	2,059	2,059	2,059
13,750	13,800	2,066	2,066	2,066	2,066
13,800	13,850	2,074	2,074	2,074	2,074
13,850	13,900	2,081	2,081	2,081	2,081
13,900	13,950	2,089	2,089	2,089	2,089
13,950	14,000	2,096	2,096	2,096	2,096

* This column must also be used by a qualifying widow(er).

Continued on next page

FORM 1040EZ STEP-BY-STEP

What you'll need:

- W-2s—one for each job during the year
- 1099-INTs—if you received interest income
- Pencil/pen, scratch paper
- Calculator
- Blank Form 1040EZ

Key items:

Name & address label

- If you have no peel-off mailing label, print your name and address carefully. (Otherwise, save the mailing label to apply when you are sure your return is complete and correct.)
- Enter your social security number. (See box d of your W-2.)
- If you want $3 to go into the Presidential Election Campaign Fund, check "Yes."

Filing Status

Check one of the boxes on line 1 to show whether you are single, or married and filing a joint return.

Report your income

- Add the amount(s) in box 1 of your W-2 form(s), and put the total on line 2 of the 1040EZ form.
- If you received interest income, you must include all taxable interest, even if no Form 1099 is received (that is, an amount less than $10), on line 3. (If over $400, you must use Form 1040A or 1040.)
- Double-check your addition for line 4.
- See Student Handout 3.4, "The Dependency Tests" to find out if you should check the "Yes" or "No" box on line 5. If you check the "No" box, on line 5 put 6,050 if you are single and 10,900 if you are married.
- If you check the "Yes" box, look at line 2. If the amount on line 2 is more than $600, put the line 2 amount on line 5, too. Do not put more than $3,700 on line 5. If the line 2 amount is less than $600, put $600 on line 5.
- Double-check your subtraction for line 6.

Figure your tax

- Add up the amounts in box 2 of your W-2(s), and put the total in line 7.
- Find your tax by using the appropriate (single, or married filing jointly) column of the Tax Tables. Look for your taxable income (the line 6 amount). Write in the amount of your tax on line 8.
- Double-check that you copied the figures from your W-2s and Tax Tables correctly.

Refund or amount you owe

- Look at lines 7 and 8 again. Check whether line 7 or 8 is larger.
- If line 7 is larger, you should complete line 9. Subtract line 8 from line 7, and put the result on line 9. This is the amount of your refund.
- If line 8 is larger, subtract line 7 from line 8, and put the result on line 10. This is the amount you owe.

Sign your return

- Double-check your addition and subtraction.
- Read the words in bold letters at the bottom of the form, then sign and date it and enter your occupation.
- Attach your mailing label; make any necessary corrections right on the label.
- Attach Copy B of each W-2.
- If you owe more tax, attach your check or money order made payable to "Internal Revenue Service." Make sure your social security number, address, daytime phone number, and "1993 Form 1040EZ" are on your payment.
- Mail your return by April 15.

FORM 1040A

Form **1040A** Department of the Treasury—Internal Revenue Service

U.S. Individual Income Tax Return 1993 IRS Use Only—Do not write or staple in this space.

OMB No. 1545-0085

Label (See page 15.)

Use the IRS label. Otherwise, please print or type.

LABEL HERE

Your first name and initial | Last name

If a joint return, spouse's first name and initial | Last name

Home address (number and street). If you have a P.O. box, see page 16. | Apt. no.

City, town or post office, state, and ZIP code. If you have a foreign address, see page 16.

Your social security number

Spouse's social security number

For Privacy Act and Paperwork Reduction Act Notice, see page 4.

Presidential Election Campaign Fund (See page 16.)

	Yes	No
Do you want $3 to go to this fund?		
If a joint return, does your spouse want $3 to go to this fund?		

Note: *Checking "Yes" will not change your tax or reduce your refund.*

Check the box for your filing status (See page 16.) Check only one box.

1 ☐ Single

2 ☐ Married filing joint return (even if only one had income)

3 ☐ Married filing separate return. Enter spouse's social security number above and full name here. ▶ ______

4 ☐ Head of household (with qualifying person). (See page 17.) If the qualifying person is a child but not your dependent, enter this child's name here. ▶ ______

5 ☐ Qualifying widow(er) with dependent child (year spouse died ▶ 19). (See page 18.)

Figure your exemptions (See page 19.)

6a ☐ **Yourself.** If your parent (or someone else) can claim you as a dependent on his or her tax return, **do not** check box 6a. But be sure to check the box on line 18b on page 2.

b ☐ **Spouse**

No. of boxes checked on 6a and 6b ______

c **Dependents:**

If more than seven dependents, see page 22.

(1) Name (first, initial, and last name)	(2) Check if under age 1	(3) If age 1 or older, dependent's social security number	(4) Dependent's relationship to you	(5) No. of months lived in your home in 1993

No. of your children on 6c who:

- lived with you ______
- didn't live with you due to divorce or separation (see page 22) ______

Dependents on 6c not entered above ______

d If your child didn't live with you but is claimed as your dependent under a pre-1985 agreement, check here . . . . ▶ ☐

e Total number of exemptions claimed.

Add numbers entered on lines above ☐

Figure your total income

Attach Copy B of your Forms W-2 and 1099-R here.

If you didn't get a W-2, see page 24.

If you are attaching a check or money order, put it on top of any Forms W-2 or 1099-R.

7 Wages, salaries, tips, etc. This should be shown in box 1 of your W-2 form(s). Attach Form(s) W-2. 7

8a **Taxable** interest income (see page 25). If over $400, also complete and attach Schedule 1, Part I. 8a

b **Tax-exempt** interest. DO NOT include on line 8a. 8b

9 Dividends. If over $400, also complete and attach Schedule 1, Part II. 9

10a Total IRA distributions. 10a | 10b Taxable amount (see page 26). 10b

11a Total pensions and annuities. 11a | 11b Taxable amount (see page 26). 11b

12 Unemployment compensation (see page 30). 12

13a Social security benefits. 13a | 13b Taxable amount (see page 30). 13b

14 Add lines 7 through 13b (far right column). This is your **total income.** ▶ 14

Figure your adjusted gross income

15a Your IRA deduction (see page 32). 15a

b Spouse's IRA deduction (see page 32). 15b

c Add lines 15a and 15b. These are your **total adjustments.** 15c

16 Subtract line 15c from line 14. This is your **adjusted gross income.** If less than $23,050 and a child lived with you, see page 63 to find out if you can claim the "Earned income credit" on line 28c. ▶ 16

Cat. No. 11327A

1993 Form 1040A page 1

FORM 1040A CONTINUED

1993 Form 1040A page 2

Name(s) shown on page 1 | Your social security number

Figure your standard deduction, exemption amount, and taxable income

17 Enter the amount from line 16. 17

18a Check if: ☐ You were 65 or older ☐ Blind ☐ Spouse was 65 or older ☐ Blind } **Enter number of boxes checked** ▶ 18a ☐

b If your parent (or someone else) can claim you as a dependent, check here . . . . ▶ 18b ☐

c If you are married filing separately and your spouse files Form 1040 and itemizes deductions, see page 36 and check here ▶ 18c ☐

19 Enter the **standard deduction** shown below for your filing status. **But if you checked any box on line 18a or b,** go to page 36 to find your standard deduction. **If you checked box 18c,** enter -0-.

- Single—$3,700
- Head of household—$5,450
- Married filing jointly or Qualifying widow(er)—$6,200
- Married filing separately—$3,100

19

20 Subtract line 19 from line 17. If line 19 is more than line 17, enter -0-. 20

21 Multiply $2,350 by the total number of exemptions claimed on line 6e. 21

22 Subtract line 21 from line 20. If line 21 is more than line 20, enter -0-. This is your **taxable income.** ▶ 22

Figure your tax, credits, and payments

If you want the IRS to figure your tax, see the instructions for line 22 on page 37.

23 Find the tax on the amount on line 22. Check if from: ☐ Tax Table (pages 50–55) or ☐ Form 8615 (see page 38). 23

24a Credit for child and dependent care expenses. Complete and attach Schedule 2. 24a

b Credit for the elderly or the disabled. Complete and attach Schedule 3. 24b

c Add lines 24a and 24b. These are your **total credits.** 24c

25 Subtract line 24c from line 23. If line 24c is more than line 23, enter -0-. 25

26 Advance earned income credit payments from Form W-2. 26

27 Add lines 25 and 26. This is your **total tax.** ▶ 27

28a Total Federal income tax withheld. If any tax is from Form(s) 1099, check here. ▶ ☐ 28a

b 1993 estimated tax payments and amount applied from 1992 return. 28b

c **Earned income credit.** Complete and attach Schedule EIC. 28c

d Add lines 28a, 28b, and 28c. These are your **total payments.** ▶ 28d

Figure your refund or amount you owe

29 If line 28d is more than line 27, subtract line 27 from line 28d. This is the amount you **overpaid.** 29

30 Amount of line 29 you want **refunded to you.** 30

31 Amount of line 29 you want **applied to your 1994 estimated tax.** 31

32 If line 27 is more than line 28d, subtract line 28d from line 27. This is the **amount you owe.** For details on how to pay, including what to write on your payment, see page 42. 32

33 Estimated tax penalty (see page 43). Also, include on line 32. 33

Sign your return

Under penalties of perjury, I declare that I have examined this return and accompanying schedules and statements, and to the best of my knowledge and belief, they are true, correct, and accurately list all amounts and sources of income I received during the tax year. Declaration of preparer (other than the taxpayer) is based on all information of which the preparer has any knowledge.

Keep a copy of this return for your records.

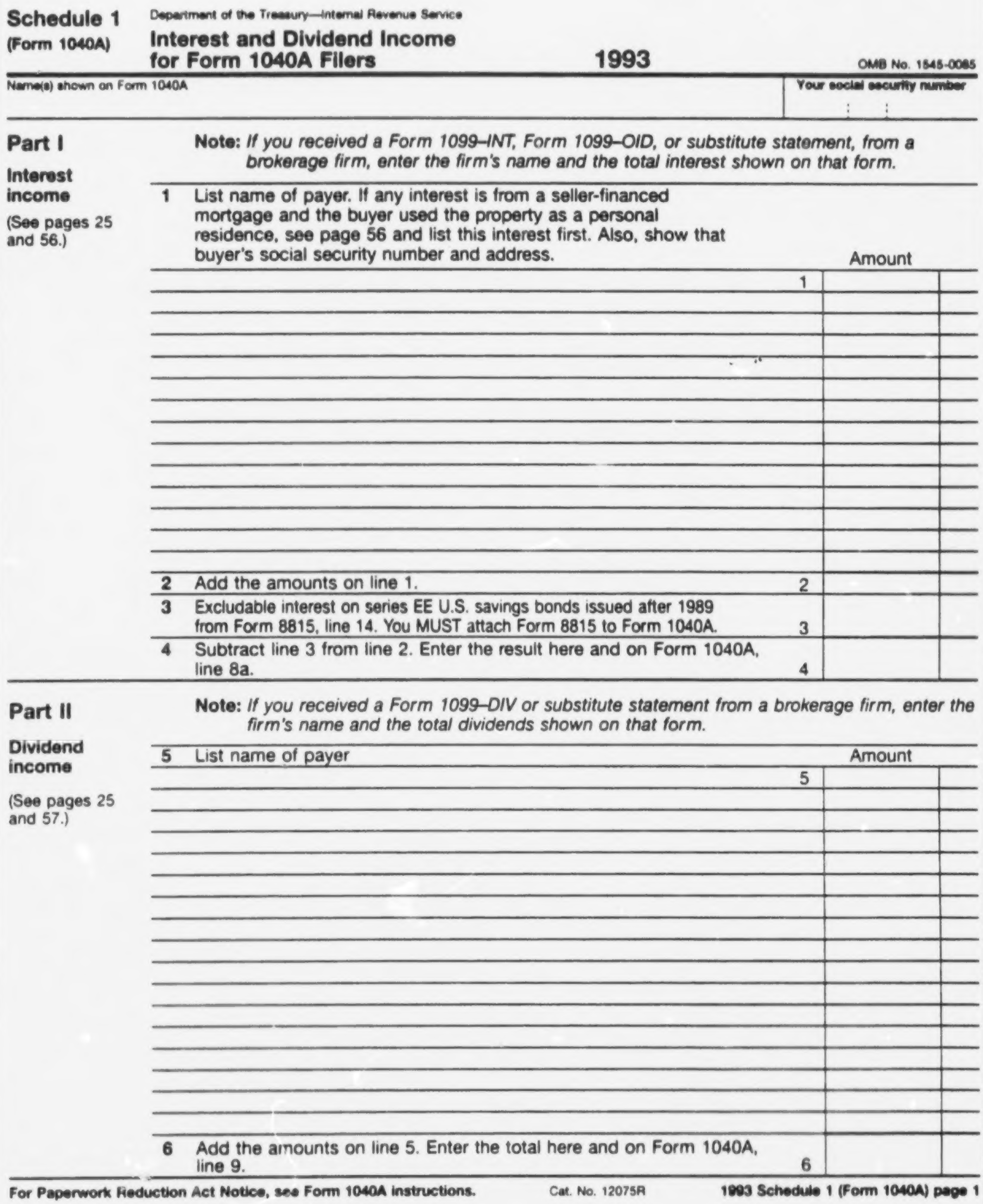
▶ Your signature	Date	Your occupation
▶ Spouse's signature. If joint return, BOTH must sign.	Date	Spouse's occupation

Paid preparer's use only

Preparer's signature ▶	Date	Check if self-employed ☐	Preparer's social security no.
Firm's name (or yours if self-employed) and address ▶		E.I. No. ZIP code	

1993 Form 1040A page 2

SCHEDULE 1



Schedule 1 (Form 1040A)

Department of the Treasury—Internal Revenue Service

Interest and Dividend Income for Form 1040A Filers

1993

OMB No. 1545-0085

Name(s) shown on Form 1040A

Your social security number

Part I

Interest income

(See pages 25 and 56.)

Note: *If you received a Form 1099–INT, Form 1099–OID, or substitute statement, from a brokerage firm, enter the firm's name and the total interest shown on that form.*

1 List name of payer. If any interest is from a seller-financed mortgage and the buyer used the property as a personal residence, see page 56 and list this interest first. Also, show that buyer's social security number and address.		Amount
	1	
2 Add the amounts on line 1.	2	
3 Excludable interest on series EE U.S. savings bonds issued after 1989 from Form 8815, line 14. You MUST attach Form 8815 to Form 1040A.	3	
4 Subtract line 3 from line 2. Enter the result here and on Form 1040A, line 8a.	4	

Part II

Dividend income

(See pages 25 and 57.)

Note: *If you received a Form 1099–DIV or substitute statement from a brokerage firm, enter the firm's name and the total dividends shown on that form.*

5 List name of payer		Amount
	5	
6 Add the amounts on line 5. Enter the total here and on Form 1040A, line 9.	6	

For Paperwork Reduction Act Notice, see Form 1040A instructions. Cat. No. 12075R **1993 Schedule 1 (Form 1040A) page 1**

FORM 1040A STEP-BY-STEP

What you'll need:

- W-2s—one for each job during the year
- 1099-INTs—if you received interest income
- Pencil/pen, scratch paper
- Calculator
- Blank Form 1040A and Schedule 1
- Social security numbers for your spouse and dependents

Key items:

Name & address label

- If you have no peel-off mailing label, print your name (and your spouse's name) and address carefully. (Otherwise, save the mailing label to apply when you are sure your return is complete and correct.)
- Enter you social security number (and your spouse's, when applicable)
- If you want $3 of your taxes to go into the Presidential Election Campaign Fund, check "Yes"; otherwise, check "No."

Check the box for your filing status

- If you are single, check box 1. (You may want to check Student Handout 4.5, "Which Tax Form Should You Use?" to find out whether you can use Form 1040EZ instead.)
- If you are married and want to take advantage of lower tax rates by filing a joint return, check box 2.
- If you are married and want to file separately from your spouse, check box 3. Be sure to enter your spouse's name and check to make sure you have entered the correct social security number.
- If you are unmarried or do not live with your spouse and you have an unmarried child living with you, you probably qualify as head of household. (See the instructions for Form 1040A for more information about head of household status.) Check box 4.
- If you are a widow or widower with a dependent child, enter the year in which your spouse died and read the instruction book for more information.

Figure your exemptions

- If no one else can claim you as a dependent on his or her tax return, take an exemption for yourself by checking box 6a. (See Student Handout 3.4, The Dependency Tests.)
- If you are filing a joint return, your spouse usually cannot be claimed as a dependent on someone else's return. Take an exemption for your spouse by checking box 6b. If you are filing a separate return, you can take an exemption for your spouse only if he or she had no income and was not the dependent of another taxpayer.
- Take an exemption for each person who qualifies as your dependent. (See Student Handout 3.4.) Enter their names and other information on the lines under "c Dependents."
- Complete the lines at the right, and add up the total number of exemptions. Put the total in the large box to the right of line e.

Figure your total income

- Add up the amounts in box 1 of your W-2(s), and put the total on line 7.
- If you received any interest income, put the total on line 8a.
- If the amount you entered on line 8a is more than $400, put the name of each party who paid you interest and the amount on Part I of Schedule 1. Put your name and social security number on Schedule 1, and save it to attach to your return.
- If you received non-taxable interest income (for example, from municipal bonds), enter the amount on line 8b and check the instruction book.
- See the instructions for Form 1040A if you think any of lines 9 through 13 apply to you.
- Add up the amounts on lines 7, 8a, 9, 10b, 11b, 12, and 13b. (Do not include lines 8b, 10a, 11a, or 13a.) Write the total on line 14. Double check your addition.

Student Handout 3.14 (continued)

FORM 1040A STEP-BY-STEP (CONTINUED)

Figure your adjusted gross income

- See the instructions for Form 1040A if you think lines 15a and b apply to you.
- If lines 15a and b do not apply, bring down the amount from line 14, and write it on line 16.

Figure your standard deduction, exemption amount, and taxable income

- Put the line 16 amount on line 17, too.
- You will probably not check lines 18a or c. If you did not check box 6a, check the box for line 18b now.
- If you did not check line 18b, look back at lines 1-5, where you checked box 1, 2, 3, 4, or 5. If you checked box 1, put $3,700 on line 19. If you checked box 2 or 5, enter $6,200 on line 19. If you checked box 3, enter $3,100. If you checked box 4, enter $5,450.
- If you did check line 18b, look at the amount you entered at line 7. If it is more than $3,700, put $3,700 on line 19. If it is less than $3,700 but more than $600, put the line 7 amount on line 19, too. If the line 7 amount is less than $600, put $600 on line 19.
- At line 20, subtract your standard deduction, line 19, from your adjusted gross income, line 17, double-check your subtraction, and enter the amount on line 20.
- Look at line 6e. Multiply the number you put there times $2,350. Put the total on line 21.
- Subtract the amount entered on line 21 from the amount on line 20. Double-check, and enter the result on line 22.

Figure your tax, credits, and payments.

- Look at your taxable income (line 22) and then find the pair of figures that includes this amount of income in the Tax Tables. Find the column that applies to you and then find your tax. Enter this amount on line 23 and check the box "Tax Table."
- See the instructions for Form 1040A if you think line 24a or b, or line 26 applies to you. If these lines do not apply, copy the line 23 amount on line 27.
- Add up the amounts in box 2 of your W-2s and put the total on line 28a. (See the instructions for Form 1040A if you think line 28b or c applies to you.)
- Add any amount on line 28b or c to line 28a, double-check your addition, and enter the total on line 28d.

Figure your refund or the amount you owe.

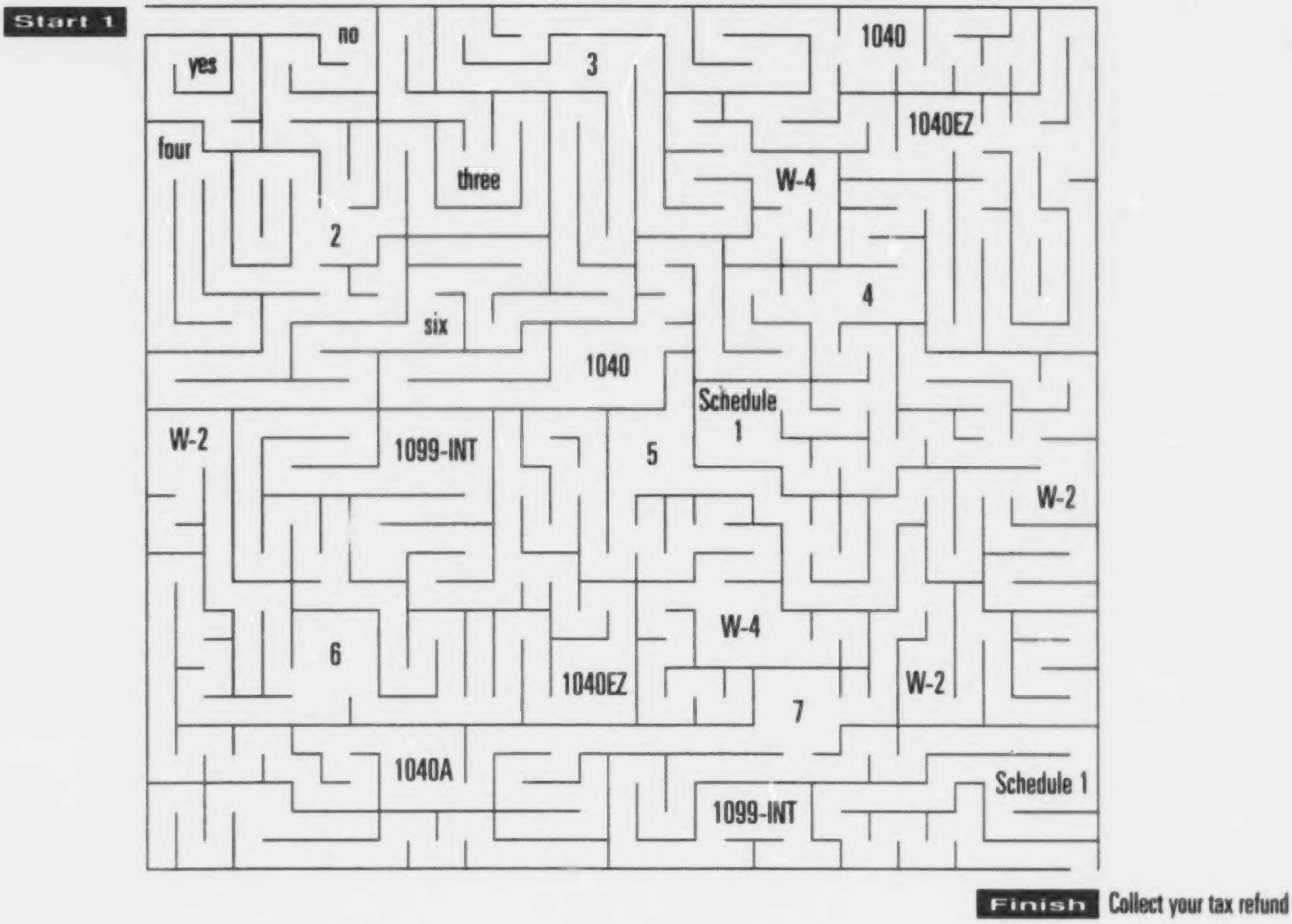
- Look at lines 27 and 28d again. Check whether line 27 or line 28d is larger.
- If line 28d is larger, you should complete lines 29 and 30. (See the instruction for Form 1040A if you think line 31 might apply to you.) Subtract line 27 from line 28d and put the result on line 29. This is the amount you overpaid. Enter on line 30 the amount you want refunded to you.
- If line 27 is larger, you should complete line 32. Subtract line 28d from line 27, and put the result on line 32. This is the amount you owe.

Sign your return.

- Carefully read the words above the line for your signature, then sign and date your return and write in your occupation.
- Attach your mailing label; make any corrections right on the label.
- Attach copy B of each W-2.
- Attach any other Schedules you used.
- If you owe more tax, attach your check or money order. Make sure your social security number, daytime phone number, and "1993 Form 1040A" are on your payment check or money order.
- Mail your return by April 15.

THE TAX MAZE

Directions: Read question 1 below. Then enter the maze at "Start 1" and find your way to the correct answer to the question. From there, go to 2, read question 2 and continue on through the maze until you have arrived at the answer to that question. Continue on through the maze until you have answered all seven questions in order.


Start 1
no
yes
3
1040
1040EZ
four
three
W-4
2
4
six
1040
Schedule 1
W-2
1099-INT
5
W-2
W-4
6
1040EZ
W-2
7
1040A
Schedule 1
1099-INT
Finish
Collect your tax refund

1. You expect to earn about $375 in your first summer job and about $675 in interest this year. Are you exempt from withholding?
2. You are 25, you have a spouse who doesn't work, two children, and a 14-year-old brother who qualifies as your dependent. How many allowances can you claim on your W-4?
3. You are 16, single, claimed as a dependent on your parents' tax return, and you earned $2,457 last year. Which return do you file?
4. You completed your 1040EZ tax return showing that you should get a refund of $63. What form do you need to attach to it before you mail it in?
5. You have a savings account at your bank. What form will tell you how much interest you earned in the past year?
6. You and your spouse file a joint return showing a combined salary income of $57,000 with no other sources of income, you have two children, and you want to take a credit for child care. Which return do you file?
7. You earned $534 in interest income last year. What will you need to attach to your Form 1040A?

LESSON SUMMARY
FROM W-4 TO W-2

Key terms are in boldface italics. Their definitions should be checked in Student Handout 3.1, "Glossary of Key Terms."

From W-4 to W-2

- All U.S. citizens or residents may have to pay tax on their income.
- Federal income tax is collected on a **pay-as-you-go** basis. Employees may have taxes taken out of—withheld from—each paycheck that is subject to tax. (See **Tax Withholding**)
- Employees provide information so the employers can determine how much should be withheld when they fill out IRS Form W-4 and give it to their employer. Employees are expected to fill it out accurately and honestly.
- To fill out a Form W-4, it is important to understand the meaning of **dependent** in tax law. (See Student Handout 3.4, "The Dependency Tests.")
- Some people, for reasons of income and status, are not required to have any tax withheld. (Check the definition of **exempt from withholding.** Then work through Student handout 3.3, "Are You Exempt from withholding?" to find out whether you are exempt.)
- Taxpayers may claim **allowances** on Form W-4. The total number of allowances listed on Form W-4 is not the same as exemptions that an employee expects to claim on his or her return. Exemptions are subtracted from adjusted gross income on the return before the tax liability is figured. The exemption amount for 1993 is $2,350. It's important to come up with the right number of allowances on Form W-4, because an employer withholds tax based on wages paid and information the employee provides on Form W-4. (See **Withholding Allowance.**)
- If you are **single** and have **more than one job** and your combined earnings from all jobs exceed $30,000 OR if you are married and have a **working spouse or more than one job**, and the combined earnings from all jobs exceed $50,000, use the Two-Earner/Two-Job Worksheet to avoid having too little tax withheld. The work sheet will help you estimate your extra tax liability so that your withholding can cover more of it.
- Taxpayers may, even if they are married, request withholding at the usual rate for single people, which is generally higher than that for married people, in order to cover taxes that might be owed on other sources of income, such as interest or dividend payments.

On the basis of the information employees provide in their W-4 forms, employers calculate the amount to withhold. By Jan. 31 of each year, they give employees copies of IRS Form W-2 that shows how much the employee earned in the previous year and how much was withheld. Employees should check this form for accuracy. They are required to attach a copy to their tax return.

Filing a Return and Form 1040EZ

Even if you do not owe any taxes, you must file a return if you have had any federal income taxes withheld from your paycheck and you want to have them refunded.

There are other reasons for filing a return. For 1993, you have to file a return if you are under 65, not blind, and

- are someone's **dependent**, are not married, and had an **earned income** of over $3,700
- are someone's dependent, are not married, and had an income of over $600 that included **unearned income**
- are someone's dependent, are married, and had an earned income of over $3,100
- are someone's dependent, are married, and had a gross income of more than $600 that included unearned income
- are someone's dependent, are married, had a gross income of at least $5.00 and your spouse files a separate return and itemizes **deductions**
- had net earnings from self-employment of at least $400

You also had to file a return if you

- are not someone's dependent, are single, and had a gross income of $6,050 or more
- are not someone's dependent and are a head of household with a gross income of $7,800 or more
- are not someone's dependent, are married filing separately, and had a gross income of at least $2,350
- are not someone's dependent, are married filing jointly, and had a gross income of at least $10,900

See Student Handout 3.7, "Should You File a Tax Return?"

Once you have decided that you need to file a return, you need to decide which form is most appropriate for you. Form 1040EZ is the simplest and most likely to be used by students. You can use this form if you

- are single and claim an exemption only for yourself, or are married and filing a joint return
- had less than $50,000 in taxable income

Student Handout 3.16 (continued)

LESSON SUMMARY (CONTINUED)

FROM W-4 TO W-2

- had no sources of income other than wages, salaries, tips, taxable scholarship and fellowship grants, and not more than $400 of interest income
- had no income adjustment, itemized deductions, or other taxes or credits

Forms 1040A and 1040 are used by people whose tax situations are more complex. See Student Handout 3.8, "Which Tax Return Form Should You Use?"

To fill out Form 1040EZ, see Student Handout 3.11, "Form 1040EZ Step-by-Step." Your teacher may have software to help you.

1040A and Beyond

In certain cases, you may need to file Form 1040A instead of 1040EZ. You will need to use Form 1040A or Form 1040

- if you claim more than one exemption
- if you are a qualifying widow(er) with a dependent child, or a head or household
- if you have more than $400 worth of interest income
- if you have sources of income besides those listed for Form 1040EZ

(See Student Handout 3.8, "Which Tax Return Form Should You Use?")

Form 1040A is somewhat more complex than 1040EZ. You may need to use an additional form, Schedule 1, to list sources and amounts of your interest payments or dividends, and, depending on your situation, you may need to use other worksheets or schedules as well.

Complete Form 1040A carefully, using Student Handout 3.14, "Form 1040A Step-by-Step" and the instruction book that is available with the form.

LESSON 3
FROM W-4 TO 1040A

Note: This lesson is designed to be taught over a three- to five-day period. It is presented in three parts. Each of these parts can be taught in one day, but they will require more time if the software component is used to give students further practice in using tax forms.

PURPOSE

To help students understand (1) that taxpayers are responsible for paying income taxes through withholding as income is earned; (2) that they voluntarily report their income to the government by "filing" a tax return; and (3) that there are specific forms to help taxpayers in different situations do this. This three-part lesson will acquaint students with the basic tax-related forms they are likely to encounter.

OBJECTIVES

After participating in the suggested activities, students will be able to:

- discuss the use and importance of Forms W-4, W-2, 1040EZ, and 1040A
- determine, when given sufficient information, whether an individual must file a return
- identify the specific tax return form that is most appropriate for each of a selection of taxpayers
- define and use relevant concepts and terms in order to fill out Forms W-4, 1040EZ, and 1040A correctly and appropriately

MATERIALS

- Student Handout 3.1, "Glossary of Key Terms"
- Student Handout 3.2, "IRS Form W-4, front and back"
- Student Handout 3.3, "Are You Exempt from Withholding?"
- Student Handout 3.4, "The Dependency Tests"
- Student Handout 3.5, "IRS Form W-2" and "IRS Form 1099-INT"
- Student Handout 3.6, "Case Studies"
- Student Handout 3.7, "Should You File a Tax Return?"
- Student Handout 3.8, "Which Tax Return Form Should You Use?"
- Student Handout 3.9, "IRS Form 1040EZ" (also used in Lesson 2)
- Student Handout 3.10, "Tax Tables 1993, pages 1 and 2)"
- Student Handout 3.11, "Form 1040EZ Step-by-Step"
- Student Handout 3.12, "Form 1040A"
- Student Handout 3.13, "Schedule 1"
- Student Handout 3.14, "Form 1040A Step-by-Step" (two pages)
- Student Handout 3.15, "The Tax Maze"
- Student Handout 3.16, "Lesson Summary"
- Software Supplement (for use with Apple II+, IIe, IIc, or GS and PCs
- Understanding Taxes Software Supplement User's Guide

KEY TERMS

Adjusted Gross Income
Total income reduced by certain adjustments such as the IRA deduction and the deduction for alimony paid.

Credits
A direct reduction of the tax owed. Credits are allowed for purposes such as child care and the earned income credit for low-income taxpayers.

Dependent
A person who relies on someone else for support. A dependent generally may not be the taxpayer or his or her spouse. A taxpayer may claim an exemption for a dependent if the dependency tests are met.

Dividends
Ordinary dividends are a corporation's distributions to its shareholders from its earnings and profits.

Earned Income
Includes wages, salaries, tips, and net earnings from self-employment and other income received for personal services.

Earned Income Credit
A refundable credit for low-income workers with children. This credit may be paid to the worker even if no income tax was withheld from the worker's pay. To receive the earned income credit, a taxpayer must file a tax return.

Exempt (from Withholding)
Free from federal income tax withholding requirements by meeting certain income, tax liability, and dependency criteria.

Exempt (from Tax Liability)
Tax law provides for a set amount which taxpayers can claim for themselves, their spouses, and eligible dependents. The total of these amounts is subtracted from adjusted gross income before any tax is computed on the remaining income.

Gross Income
Money, goods, and property you received that must be included in taxable income.

Interest Income
Income received from savings accounts or from lending money to someone else.

Standard Deduction
An amount fixed by law and based on filing status and age, which taxpayers may deduct from their adjusted gross income before tax is determined.

Tax Withholding
Money that an employer takes from an employee's paycheck and that is used to pay part or all of the employee's taxes.

Taxable Income
The income on which tax is computed.

Withholding Allowance
Claimed by an employee on Form W-4. An employer uses the number of allowances claimed, together with income earned and marital status to determine how much income tax to withhold from wages.

Opening the Lesson: Voluntary Compliance, Pay-as-you-go, and Tax Withholding

The following discussion is designed to clarify three main concepts that lie behind the use of the forms discussed in this lesson. These are touched on in other lessons in Understanding Taxes, but it is important for students to understand them here.

STUDENT HANDOUT 3.1

Distribute copies of Student Handout 3.1, "Glossary of Key Terms"

Permit a minute or so of debate of the question. Then elicit, if possible, or explain the concept of "voluntary compliance."

Ask, "Do you have to file a tax return and pay taxes?"

The U.S. income tax system is built on the idea of "voluntary compliance." This means that it is left to the taxpayer to keep the necessary records, file a return on time, pay any required taxes, and meet other requirements of the tax law. The system is built on trust in citizens to know their responsibilities and to do what needs to be done. Taxpayers follow the steps the tax system suggests on their own—voluntarily. Failure to do so, however, can result in penalties.

Elicit, if possible, or explain the concept of "pay-as-you-go" or "tax withholding."

Ask, "How do most taxpayers pay their income taxes?"

Most people's income comes from salary or wages earned in a job. In the "pay-as-you-go" method of tax payment, a taxpayer must pay the tax as income is earned or received during the year. An employer withholds tax based on wages paid and information the employee provides on Form W-4. This system is called "tax withholding."

Elicit or explain the advantage for taxpayers of not being "hit" with a sudden tax bill all at once and a government's need for uninterrupted revenues.

Ask, "What is the advantage of withholding for taxpayers? For the government?"

Without tax withholding many people would find it difficult to save enough money to pay their income taxes all at once. Government services might be disrupted and undependable if they were not funded on a continuous basis.

Developing the Lesson Activity 1—Filling Out a W-4 Form **(25 minutes)**

STUDENT HANDOUT 3.2
STUDENT HANDOUT 3.1

Distribute copies of Student Handout 3.2, "IRS Form W-4" or use an overhead projector to display it. If you haven't previously distributed Student Handout 3.1, "Glossary of Key Terms," do so now.

Have the students look over the form.

They should notice that on the front there are directions and two parts, and on the back two parts and a table.

(The optional software supplement and the User's Manual that accompanies it are suggested for use as review and reinforcement on a second class day—see page 8. Depending on the availability of computers and software copies, however, you may wish to have students work through the software program first, then proceed with the paper forms following the steps suggested here.)

Ask whether any of the students has filled out a W-4. Ask one of them who has responded positively, "What did you do with it after you filled it out?"

The bottom part of the front side is cut off and given to the employer (or the personnel officer, etc.).

Ask, "Why does an employer need this form from each employee?"

The form helps the employer figure how much withholding to take from the employee's paycheck.

Ask, "What is the rest of the form for?"

The other parts are instructions and worksheets. The worksheets help you figure out how to fill in the part of the form you give to your employer.

Tell the students that the W-4 is used by all employees, including some whose tax situations are very complex. It is assumed that most taxpayers will not need to use all parts of each worksheet.

Oversee the students as they fill out the distributed copies of the W-4 forms, or demonstrate how to fill one out if you are projecting it on an overhead, using the following steps:

Have the students fill in lines 1 and 2.

Ask, "What could happen if you don't write your social security number correctly, or make a mistake on your name or address?"

Errors and inaccuracies might delay or prevent a tax refund.

Ask, "If you don't have a social security number, where can you get one?"

You apply for one at the social security office (check the local phone book) where you fill out form SS-5.

Have the students look at line 7.

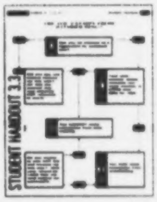
Ask, "Who can explain the phrase, 'exempt from withholding'?"

People who are "exempt from withholding" don't need to have anything taken out of their paychecks, usually because they earned very little income.

Encourage discussion.

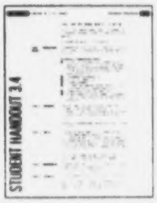
Ask, "How do you know whether you are 'exempt from withholding'?"

Distribute copies of Student Handout 3.3, "Are You Exempt from Withholding?"



Have a volunteer read the first two bulleted sentences following line 7 on the W-4 Form while the class looks at the diagram on Student Handout 3.3.

Have students trace the sequence on Handout 3.3 from box 1 through box 3 and then to box 6 to illustrate the first two conditions for exemption from withholding.



Distribute Student Handout 3.4, "The Dependency Tests."

Ask, "Who may be claimed as a dependent?"
Students are likely to respond that dependents are usually underage children.

Have the students look at "Test 1: Relationship or Member of Household" on the handout.

Ask, "How many of these dependents described are not underage or not the taxpayer's child?"
Students should conclude that "dependents" encompass many different near relatives, and even non-relatives in some circumstances.

Quickly review the other tests for dependent status: Joint return; citizenship or resident; gross income (including student status); support. You may want to pause over Test 2, gross income, and discussion of the dependency status of students.
A student dependent is a child whose income can be more than the exemption amount ($2,350 in tax year 1993) during the tax year. The child may be claimed as a dependent if he or she is under 19 at the end of the tax year or under 24 and a full-time student for some part of five months of each tax year.

Return to line 7 on the W-4 form.

Ask, "Suppose your parents plan to claim you as a dependent. Can you claim an exemption from withholding?"
No, not unless your total income from interest and dividends, etc., plus wages is likely to be less than the minimum standard deduction for dependents, $600 for 1993.

State that if all three bulleted conditions are met, the employee can enter "EXEMPT" at box 7 and sign and date the form. Most employees, however, will need to fill out the remaining lines.

Have the students look at line 5 of the W-4 form.

Ask a volunteer to read about "withholding allowance" from Student Handout 3.1, "Glossary of Key Terms."
"Claimed by an employee on Form W-4. An employer uses the number of allowances claimed, together with income earned and marital status to determine how much income tax to withhold from wages."

Discuss "withholding allowance" as students look at the upper part of the front side of the W-4 Form, "Personal Allowances Worksheet."

Run through lines A through G quickly.

Ask students to fill out the worksheet as it applies to their own situation. Some may have to review the definition of "dependent."

Have the students enter the number from line G of the worksheet in box 5 of the certificate part of the W-4 form.

Have the students look at line 3 on the W-4 form.

Explain that taxes may be higher for a single person than for a married couple filing a joint return. Employers have tables that tell them how much to withhold for employees who are married or single.

Call attention to the third box in line 3, "Married, but withhold at higher Single rate."

Point out that the tax rate for single people may be higher than for married people.

Call attention to line 6 ("Additional amount, if any, you want withheld from each paycheck").

Ask, "Why would anyone want to be subject to a higher withholding rate, or have extra deductions made from a paycheck?"

Some people may have considerable income from a spouse's earnings, or from investments, rents, interest, or other sources. If more is withheld, more of their tax liability will be paid "as they go," and they will not have to come up with a large lump-sum payment or possibly pay estimated taxes.

Emphasize that tax withheld may not be equal to the total tax owed.

Some people may have more withheld than they owe. They will get a refund when they file their returns.

Other people may owe more tax than is covered by withholding from wages. They will have to send a check with their return. Some may be subject to a penalty for underpayment of their taxes.

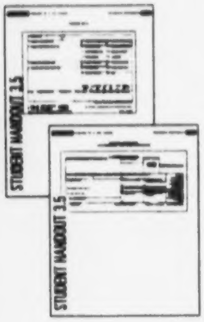
STUDENT HANDOUT 3.2
STUDENT HANDOUT 3.6

Distribute copies of Student Handout 3.6, "Case Studies" and fresh copies of Handout 3.2, "IRS Form W-4."

Have the students work individually or in small groups to fill out Form W-4 for Case Study A, Jay R. Jones.

Activity 2: The W-2 Form (5 minutes)

Distribute copies of Student Handout 3.5, "IRS Form W-2 and IRS Form 1099-INT"



Explain to the students that by law, employers must give their employees a copy of this form by January 31 of each year. Employees with more than one employer should get one from each employer.

Point out the most important sections or boxes of the W-2 form:

Box c:	Name and address of the employer
Box e-f:	Name and address of the employee
Box d:	Employee's social security number
Box 1:	The employee's actual pay for the year from this employer
Box 2:	The amount of money withheld for federal income tax

Tell students that one copy of the W-2 form (called Copy B) must accompany the federal tax return that each taxpayer files. It is in taxpayers' interest to double-check the information contained on their W-2 forms for correctness and to report any problems to their employers right away.

Optional: Ask, "Can anyone explain the term 'unearned income'?"
Unearned income is income other than pay from work performed, such as interest or dividends from savings or investments.

Point out IRS Form 1099-INT on Student Handout 3.5 to the students. A bank or other financial institution might send such a form to taxpayers who have "unearned income" to show how much interest income has been earned by their savings accounts. A copy is also sent to the IRS. Taxpayers must include such unearned income in the total income they report on their return.

Optional

Second Class Period

Have students, working individually, use the software supplement to review or practice filling out Form W-4. They can look at the User's Guide for directions. In the software program, they should open and read through Section A, "Introduction," first, and then go on to Section B and Section C.

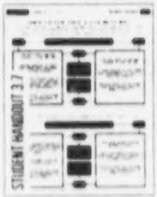
If any class time remains, you may want to have the students begin working on the first of the Case Studies (Student Handout 3.6) used in the Completing the Lesson section.

Filing a Return and Form 1040EZ

1. Deciding Whether To File

Ask, "What does file a tax return mean?"
To file a tax return means to mail or send to a regional IRS Service Center the appropriate IRS form(s)—the return—on which the taxpayer has entered information about income and tax liability.

Ask, "Does everyone need to file a tax return?"
No, some people do not need to file a return, but even if they owe no taxes, if they have any federal income taxes withheld from their paychecks, they should file a return to get their refund.



Distribute copies of Student Handout 3.7, "Should You File a Tax Return?"

Have students work through the series of questions and answers to decide whether they, or someone in a hypothetical situation, should file a return.

To make sure students understand filing requirements, ask for a show of hands in response to such questions as "How many of you are claimed as a dependent on the return of your parent(s) or someone else?"
Students may need to review the definition of dependent by looking at Student Handouts 3.1, "glossary of key terms" and 3.4, "The Dependency Tests."

Students claimed as dependents by someone else should look at question 1 on the upper half of Handout 3.7 and study the diagram underneath it.

"How many of you are not claimed as a dependent?"

Students who are not claimed as someone's dependent should look at question 2 and the diagram on the lower half of Handout 3.7.

"How many of you are married?"

Students who are married should look at the question in the left hand box of the appropriate diagram.

"How many of you are not married?"

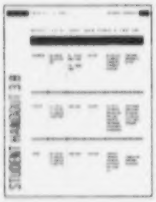
Students who are not married should look at the question in the right hand box of the appropriate diagram.

The optional software supplement, Section D, contains information to help students decide whether they should file a tax return. You may want to have them work through this section now.

2. Deciding Which Form To File

Ask, "Suppose you've decided that you need to file a tax return. What form do you use?"

Everyone who files a tax return uses some version of Form 1040. Besides the standard 1040, there are two easier versions, 1040A and 1040EZ. These are for people whose tax situations are relatively simple.



Distribute copies of Student Handout 3.8, "Which Tax Return Form Should You Use?"

Have the students look again at Student Handout 3.1, "Glossary of Key Terms." Call their attention to the definition of exemption and make sure they understand the distinction between this term and withholding allowance used in Lesson 3.

Exemption, as it is used on tax returns, is a set amount for each taxpayer and each eligible dependent that is subtracted from adjusted gross income to reduce the amount on which tax is figured.

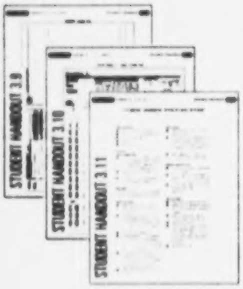
Ask students, "Which form are most high school students likely to use?"

Unless they are married or have considerable amounts of unearned income, most high school students will use Form 1040EZ.

Ask, "Which form would the chief executive of a large real estate corporation be most likely to use?"

Anyone with income from rent, buying and selling houses, or similar sources would need to use Form 1040.

3. Filling Out Form 1040EZ



To lead your students through Form 1040EZ itself, you will need to make sure each has a copy of Student Handout 3.9, "IRS Form 1040EZ" and Student Handout 3.10, "Tax Tables 1993." You may want to display the form using an overhead projector. Distribute copies of Student Handout 3.11, "Form 1040EZ Step-by-Step."

The optional software supplement, Section E, contains complete information about Form 1040EZ and provides practice in filling it out. Even if it is not possible for your students to use the software, you may wish to use it yourself to prepare.

Lead your students as they start filling in Form 1040EZ. Have them use either Handout 3.11 or the instructions on the back of the 1040EZ.

If they try to follow both simultaneously, they may become confused. (If you prefer that they fill out the form for someone fictitious rather than themselves, see the alternative activity, below.) They will need to make use of Handout 3.10, "Tax Tables 1993," to fill out the form.

In the "Report Your Income" section of the form, students will need to decide whether they can be claimed as a dependent by someone. Have them review Student Handout 3.4, "The Dependency Tests" if they are in doubt. Students must check "yes" on line 5 if someone can claim them as a dependent, whether or not that person does.

If they can be claimed as a dependent, they will probably use the worksheet on the back of 1040EZ. They will probably want to know the meaning of $600 printed on line B. (If they use Handout 3.11, they will be able to fill out 1040EZ without using the worksheet, but they won't have much understanding about where the figures come from.)

$600 is the minimum standard deduction for a dependent. At line D, the 1993 maximum standard deduction is $3,700 for single people and $6,200 for married people filing a joint return. The worksheet is a way of showing that all dependents may deduct at least $600 and no more than $3,700, depending on how much they earned. Those who can be claimed as dependents of others may not take an exemption for themselves, because that exemption can be, or is claimed by, the other person.

Have students complete filling out Form 1040EZ, checking off each step on Handout 3.11 if they are using it.

Alternative or additional activity:

STUDENT HANDOUT 3.6

Distribute Student Handout 3.6, "Case Studies."

Have students fill out Form 1040EZ for Joseph Day, Case Study C.

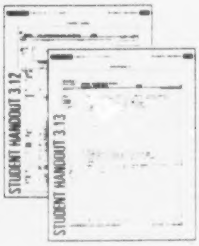
Joseph K. Day
615 Poplar Drive
Goodtown, OH 45201 987-00-4321
Check "yes" for presidential campaign contribution
1. 2,250 2. —
3. 2,250
4. check "yes" 2,250
5. 0
6. 30
7. 0
8. 30
9. 0
Signature, date, occupation (student)

1040A and Beyond

STUDENT HANDOUT 3.6

Ask students to look again at Student Handout 3.6, "Which Tax Form Should You Use?"

Ask the students to look at the situations that make Form 1040A the better choice for certain taxpayers than Form 1040EZ. Form 1040A should be used instead of Form 1040EZ if the taxpayer has more than one exemption, has more than $400 of interest and/or income from dividends, annuities, unemployment compensation, or certain other sources, and is entitled to certain income adjustments and credits



Distribute copies of Student Handout 3.12 "Form 1040A" and Student Handout 3.13, "Schedule 1."

Have the students look over Form 1040A. Call their attention to lines 7 through 14 in the section "Figure your total income."

Have the students look at line 8a, "Taxable interest income." Point out that to fill out some of these lines, you have to fill out other forms or worksheets first. If your interest income is more than $400, for example, you have to complete and attach Schedule 1, Part 1. On this form, there is space to report income from a variety of sources, including line 8b, "Tax-exempt interest"; line 10a, "Total IRA distributions"; line 12, "Unemployment compensation."

(You may want to provide a copy of the 1040A instruction booklet for students to examine. It can be obtained at your local IRS office, certain public libraries, or by calling 1-800-TAX-FORM.)

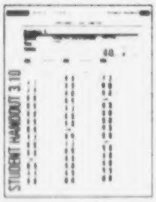
The reference on line 8a to "page 24" tells taxpayers to look on page 24 of the instruction book for Form 1040A for help in filling out this line.

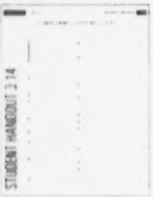
Line 9 may require completion of Schedule 1, Part II. Lines 10b, 11b, and 15b refer taxpayers to pages in the instruction book. Tax Tables, used to complete Form 1040EZ and necessary for filling out 1040A as well (line 23), are in the instruction book.

Point out that there are several other places on Form 1040A where specific schedules are required for taxpayers to get special credits.

Students who might need more information about dividend income, child care expenses, or the earned income credit should be directed to the Form 1040A instruction book and the appropriate schedules and worksheets.

Line 24a provides for credits for child care expenses with completion of Schedule 2. Line 24b asks for Schedule 3 to compute the credit for elderly or disabled people. Line 28c asks for yet another schedule. Accurate completion of any of these will lower the taxes owed.





Distribute copies of Student Handout 3.14, "Form 1040A Step-by-Step," and Student Handout 3.10 "Tax Tables," or use a projector to show them to the class.

Have the students use Handout 3.14 to fill out Form 1040A, either individually, or as a class. In the latter case you may want to demonstrate how to complete the form accurately by filling out the form you have projected, or by talking through the steps aloud.

Students should check each item on Handout 3.14 as they complete each step of the process of filling out Form 1040A.

You may wish to have students use Student Handout 3.6, "Case Studies." Students can use the information in Case Study E to practice filling out Form 1040A instead of putting in information about themselves.

STUDENT HANDOUT 3.15

Concluding the Lesson

Distribute copies of Student Handout 3.15, "The Tax Maze." Have students use any remaining class time to work the puzzle, or encourage them to take it home and try it.

Maze question answers:

1. **no**
2. **six**
3. **1040EZ**
4. **W-2**
5. **1099-INT**
6. **1040A**
7. **Schedule 1**

Distribute copies of Student Handout 3.16, "Lesson Summary." Make sure that any students who were absent from the lesson receive all the handouts as well as this summary.

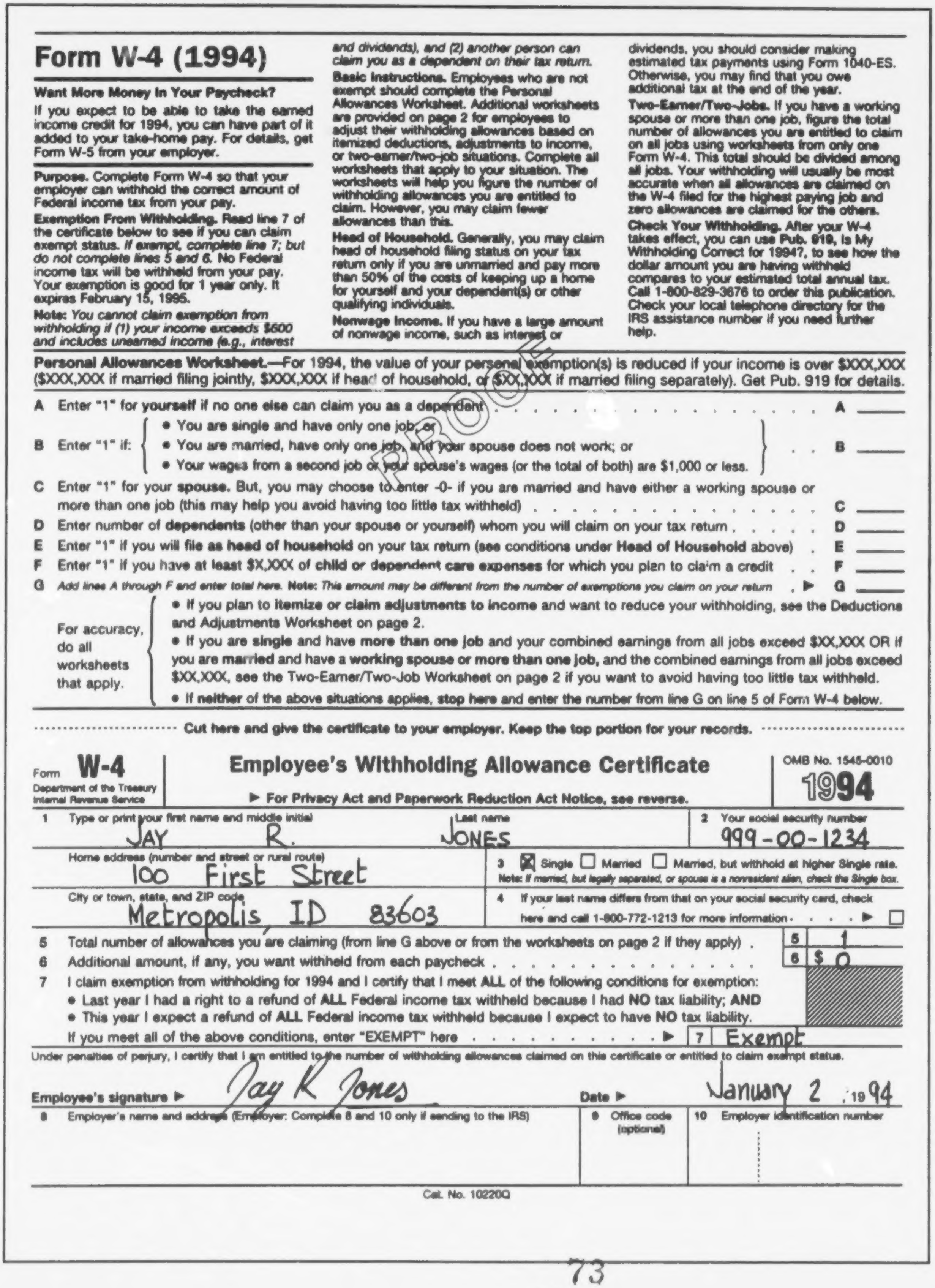
Extending the Lesson

(homework assignment)

STUDENT HANDOUT 3.6

Distribute copies of Student Handout 3.6, "Case Studies," if students don't already have them, and two additional copies each of "IRS Form W-4" and "IRS Form 1040EZ" and "Tax Tables."

Have the students complete Form W-4 for Case Studies A (if they haven't already done it) and B, and Forms 1040EZ for the Case Studies C (if not yet done) and D. If students are interested and able, give them copies of Form 1040A and Schedule 1, as well.



Form W-4 (1994)

Want More Money In Your Paycheck?

If you expect to be able to take the earned income credit for 1994, you can have part of it added to your take-home pay. For details, get Form W-5 from your employer.

Purpose. Complete Form W-4 so that your employer can withhold the correct amount of Federal income tax from your pay.

Exemption From Withholding. Read line 7 of the certificate below to see if you can claim exempt status. *If exempt, complete line 7; but do not complete lines 5 and 6.* No Federal income tax will be withheld from your pay. Your exemption is good for 1 year only. It expires February 15, 1995.

Note: *You cannot claim exemption from withholding if (1) your income exceeds $600 and includes unearned income (e.g., interest and dividends), and (2) another person can claim you as a dependent on their tax return.*

Basic Instructions. Employees who are not exempt should complete the Personal Allowances Worksheet. Additional worksheets are provided on page 2 for employees to adjust their withholding allowances based on itemized deductions, adjustments to income, or two-earner/two-job situations. Complete all worksheets that apply to your situation. The worksheets will help you figure the number of withholding allowances you are entitled to claim. However, you may claim fewer allowances than this.

Head of Household. Generally, you may claim head of household filing status on your tax return only if you are unmarried and pay more than 50% of the costs of keeping up a home for yourself and your dependent(s) or other qualifying individuals.

Nonwage Income. If you have a large amount of nonwage income, such as interest or dividends, you should consider making estimated tax payments using Form 1040-ES. Otherwise, you may find that you owe additional tax at the end of the year.

Two-Earner/Two-Jobs. If you have a working spouse or more than one job, figure the total number of allowances you are entitled to claim on all jobs using worksheets from only one Form W-4. This total should be divided among all jobs. Your withholding will usually be most accurate when all allowances are claimed on the W-4 filed for the highest paying job and zero allowances are claimed for the others.

Check Your Withholding. After your W-4 takes effect, you can use **Pub. 919,** Is My Withholding Correct for 1994?, to see how the dollar amount you are having withheld compares to your estimated total annual tax. Call 1-800-829-3676 to order this publication. Check your local telephone directory for the IRS assistance number if you need further help.

PROOF

Personal Allowances Worksheet.—For 1994, the value of your personal exemption(s) is reduced if your income is over $XXX,XXX ($XXX,XXX if married filing jointly, $XXX,XXX if head of household, or $XX,XXX if married filing separately). Get Pub. 919 for details.

A Enter "1" for **yourself** if no one else can claim you as a dependent . . . . A ______

B Enter "1" if: { • You are single and have only one job; or • You are married, have only one job, and your spouse does not work; or • Your wages from a second job or your spouse's wages (or the total of both) are $1,000 or less. } . . B ______

C Enter "1" for your **spouse.** But, you may choose to enter -0- if you are married and have either a working spouse or more than one job (this may help you avoid having too little tax withheld) . . . . C ______

D Enter number of **dependents** (other than your spouse or yourself) whom you will claim on your tax return . . . . . D ______

E Enter "1" if you will **file as head of household** on your tax return (see conditions under **Head of Household** above) . E ______

F Enter "1" if you have at least $X,XXX of **child or dependent care expenses** for which you plan to claim a credit . . F ______

G *Add lines A through F and enter total here.* ***Note:*** *This amount may be different from the number of exemptions you claim on your return* . ▶ G ______

For accuracy, do all worksheets that apply.

- If you plan to **itemize or claim adjustments to income** and want to reduce your withholding, see the Deductions and Adjustments Worksheet on page 2.
- If you are **single** and have **more than one job** and your combined earnings from all jobs exceed $XX,XXX OR if you are **married** and have a **working spouse or more than one job,** and the combined earnings from all jobs exceed $XX,XXX, see the Two-Earner/Two-Job Worksheet on page 2 if you want to avoid having too little tax withheld.
- If **neither** of the above situations applies, **stop here** and enter the number from line G on line 5 of Form W-4 below.

Cut here and give the certificate to your employer. Keep the top portion for your records.

Form **W-4**
Department of the Treasury
Internal Revenue Service

Employee's Withholding Allowance Certificate

▶ **For Privacy Act and Paperwork Reduction Act Notice, see reverse.**

OMB No. 1545-0010
1994

1 Type or print your first name and middle initial: JAY R.
Last name: JONES
2 Your social security number: 999-00-1234

Home address (number and street or rural route): 100 First Street

3 ☒ Single ☐ Married ☐ Married, but withhold at higher Single rate.
Note: If married, but legally separated, or spouse is a nonresident alien, check the Single box.

City or town, state, and ZIP code: Metropolis, ID 83603

4 If your last name differs from that on your social security card, check here and call 1-800-772-1213 for more information . . . . ▶ ☐

5 Total number of allowances you are claiming (from line G above or from the worksheets on page 2 if they apply) . 5 1

6 Additional amount, if any, you want withheld from each paycheck . . . 6 $ 0

7 I claim exemption from withholding for 1994 and I certify that I meet ALL of the following conditions for exemption:
- Last year I had a right to a refund of **ALL** Federal income tax withheld because I had **NO** tax liability; **AND**
- This year I expect a refund of **ALL** Federal income tax withheld because I expect to have **NO** tax liability.

If you meet all of the above conditions, enter "EXEMPT" here . . . . ▶ 7 Exempt

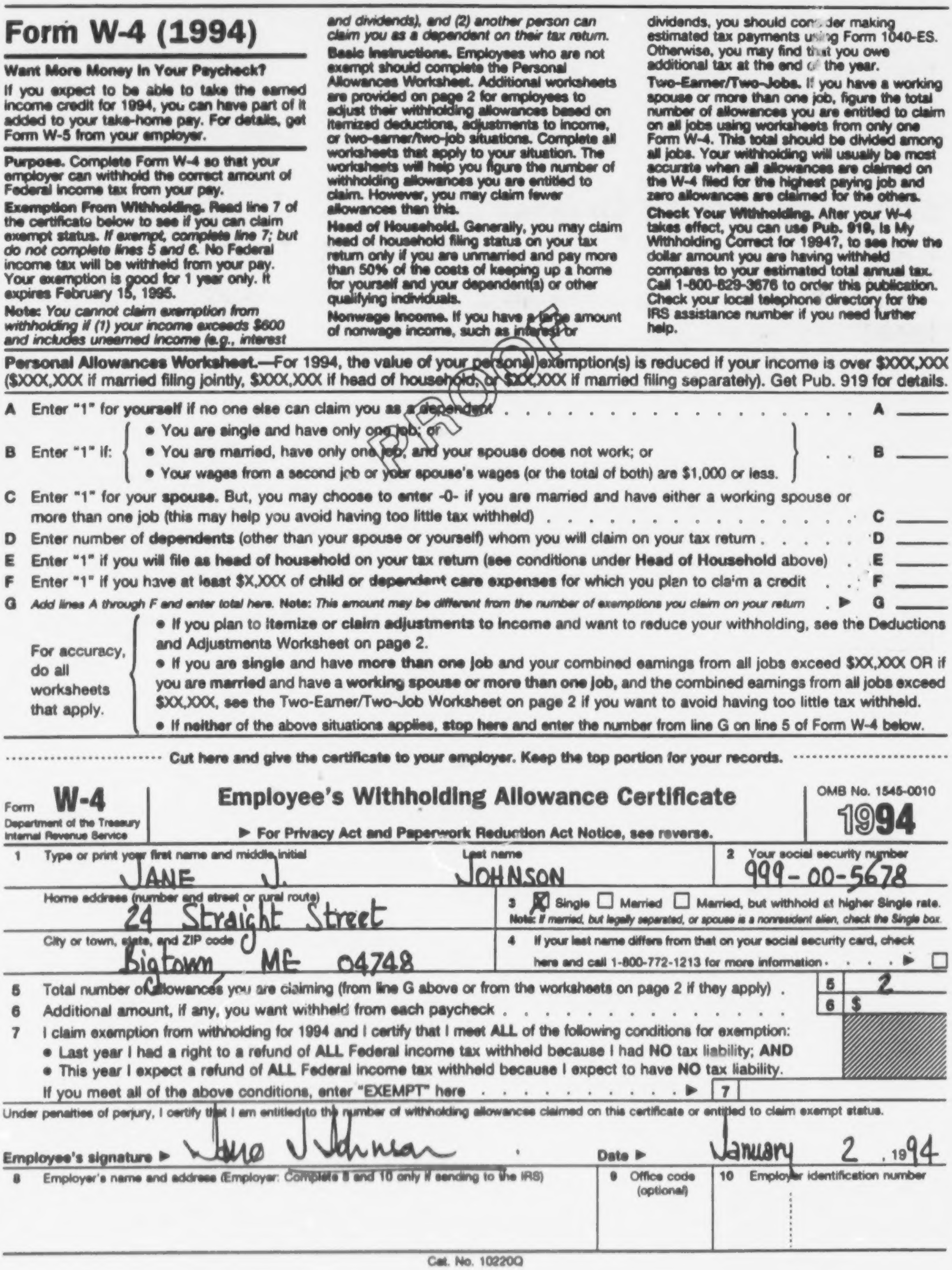
Under penalties of perjury, I certify that I am entitled to the number of withholding allowances claimed on this certificate or entitled to claim exempt status.

Employee's signature ▶ Jay R Jones **Date ▶** January 2, 1994

8 Employer's name and address (Employer: Complete 8 and 10 only if sending to the IRS)
9 Office code (optional)
10 Employer identification number

Cat. No. 10220Q

CASE STUDY B



Form W-4 (1994)

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Purpose. Complete Form W-4 so that your employer can withhold the correct amount of Federal income tax from your pay.

Exemption From Withholding. Read line 7 of the certificate below to see if you can claim exempt status. *If exempt, complete line 7; but do not complete lines 5 and 6.* No Federal income tax will be withheld from your pay. Your exemption is good for 1 year only. It expires February 15, 1995.

Note: *You cannot claim exemption from withholding if (1) your income exceeds $600 and includes unearned income (e.g., interest and dividends), and (2) another person can claim you as a dependent on their tax return.*

Basic Instructions. Employees who are not exempt should complete the Personal Allowances Worksheet. Additional worksheets are provided on page 2 for employees to adjust their withholding allowances based on itemized deductions, adjustments to income, or two-earner/two-job situations. Complete all worksheets that apply to your situation. The worksheets will help you figure the number of withholding allowances you are entitled to claim. However, you may claim fewer allowances than this.

Head of Household. Generally, you may claim head of household filing status on your tax return only if you are unmarried and pay more than 50% of the costs of keeping up a home for yourself and your dependent(s) or other qualifying individuals.

Nonwage Income. If you have a large amount of nonwage income, such as interest or dividends, you should consider making estimated tax payments using Form 1040-ES. Otherwise, you may find that you owe additional tax at the end of the year.

Two-Earner/Two-Jobs. If you have a working spouse or more than one job, figure the total number of allowances you are entitled to claim on all jobs using worksheets from only one Form W-4. This total should be divided among all jobs. Your withholding will usually be most accurate when all allowances are claimed on the W-4 filed for the highest paying job and zero allowances are claimed for the others.

Check Your Withholding. After your W-4 takes effect, you can use **Pub. 919, Is My Withholding Correct for 1994?**, to see how the dollar amount you are having withheld compares to your estimated total annual tax. Call 1-800-829-3676 to order this publication. Check your local telephone directory for the IRS assistance number if you need further help.

PROOF

Personal Allowances Worksheet.—For 1994, the value of your personal exemption(s) is reduced if your income is over $XXX,XXX ($XXX,XXX if married filing jointly, $XXX,XXX if head of household, or $XX,XXX if married filing separately). Get Pub. 919 for details.

A Enter "1" for **yourself** if no one else can claim you as a dependent . . . . A ______

B Enter "1" if:
- You are single and have only one job; or
- You are married, have only one job, and your spouse does not work; or
- Your wages from a second job or your spouse's wages (or the total of both) are $1,000 or less.

. . B ______

C Enter "1" for your **spouse**. But, you may choose to enter -0- if you are married and have either a working spouse or more than one job (this may help you avoid having too little tax withheld) . . . . C ______

D Enter number of **dependents** (other than your spouse or yourself) whom you will claim on your tax return . . . . . . D ______

E Enter "1" if you will file as **head of household** on your tax return (see conditions under **Head of Household** above) . E ______

F Enter "1" if you have at least $X,XXX of **child or dependent care expenses** for which you plan to claim a credit . . F ______

G *Add lines A through F and enter total here. **Note:** This amount may be different from the number of exemptions you claim on your return* . ▶ G ______

For accuracy, do all worksheets that apply.
- If you plan to **itemize or claim adjustments to income** and want to reduce your withholding, see the Deductions and Adjustments Worksheet on page 2.
- If you are **single** and have **more than one job** and your combined earnings from all jobs exceed $XX,XXX OR if you are **married** and have a **working spouse or more than one job**, and the combined earnings from all jobs exceed $XX,XXX, see the Two-Earner/Two-Job Worksheet on page 2 if you want to avoid having too little tax withheld.
- **If neither of the above situations applies, stop here and enter the number from line G on line 5 of Form W-4 below.**

Cut here and give the certificate to your employer. Keep the top portion for your records.

Form **W-4**
Department of the Treasury
Internal Revenue Service

Employee's Withholding Allowance Certificate

▶ **For Privacy Act and Paperwork Reduction Act Notice, see reverse.**

OMB No. 1545-0010
1994

1 Type or print your first name and middle initial: JANE J.
Last name: JOHNSON
2 Your social security number: 999-00-5678

Home address (number and street or rural route): 24 Straight Street

3 ☒ Single ☐ Married ☐ Married, but withhold at higher Single rate.
Note: If married, but legally separated, or spouse is a nonresident alien, check the Single box.

City or town, state, and ZIP code: Bigtown, ME 04748

4 If your last name differs from that on your social security card, check here and call 1-800-772-1213 for more information . . . . ▶ ☐

5 Total number of allowances you are claiming (from line G above or from the worksheets on page 2 if they apply) . 5 2

6 Additional amount, if any, you want withheld from each paycheck . . . . 6 $

7 I claim exemption from withholding for 1994 and I certify that I meet **ALL** of the following conditions for exemption:
- Last year I had a right to a refund of **ALL** Federal income tax withheld because I had **NO** tax liability; **AND**
- This year I expect a refund of **ALL** Federal income tax withheld because I expect to have **NO** tax liability.

If you meet all of the above conditions, enter "EXEMPT" here . . . . ▶ 7

Under penalties of perjury, I certify that I am entitled to the number of withholding allowances claimed on this certificate or entitled to claim exempt status.

Employee's signature ▶ Jane J Johnson

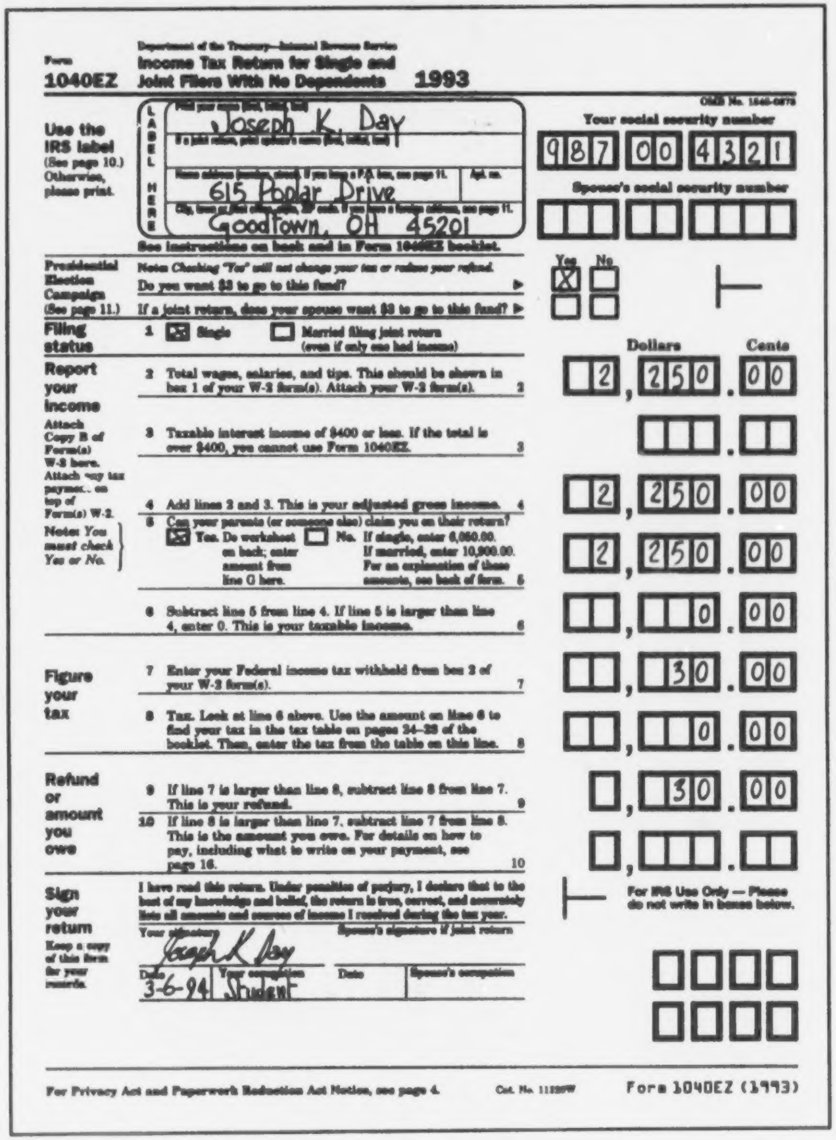
Date ▶ January 2, 1994

8 Employer's name and address (Employer: Complete 8 and 10 only if sending to the IRS)

9 Office code (optional)

10 Employer identification number

Cat. No. 10220Q



Form **1040EZ**

Department of the Treasury—Internal Revenue Service

Income Tax Return for Single and Joint Filers With No Dependents **1993**

OMB No. 1545-0675

Use the IRS label (See page 10.) Otherwise, please print.

LABEL HERE

Print your name (first, initial, last): Joseph K. Day

If a joint return, print spouse's name (first, initial, last):

Home address (number, street). If you have a P.O. box, see page 11.: 615 Poplar Drive | Apt. no.:

City, town or post office, state, ZIP code. If you have a foreign address, see page 11.: Goodtown, OH 45201

See instructions on back and in Form 1040EZ booklet.

Your social security number: 987 00 4321

Spouse's social security number: ☐☐☐ ☐☐ ☐☐☐☐

Presidential Election Campaign (See page 11.)

Note: *Checking "Yes" will not change your tax or reduce your refund.*

	Yes	No
Do you want $3 to go to this fund? ▶	☒	☐
If a joint return, does your spouse want $3 to go to this fund? ▶	☐	☐

Filing status 1 ☒ Single ☐ Married filing joint return (even if only one had income)

		Dollars	Cents
Report your income	2 Total wages, salaries, and tips. This should be shown in box 1 of your W-2 form(s). Attach your W-2 form(s). 2	2,250	00
Attach Copy B of Form(s) W-2 here. Attach any tax payment on top of Form(s) W-2.	3 Taxable interest income of $400 or less. If the total is over $400, you cannot use Form 1040EZ. 3		
	4 Add lines 2 and 3. This is your adjusted gross income. 4	2,250	00
Note: *You must check Yes or No.*	5 Can your parents (or someone else) claim you on their return? ☒ Yes. Do worksheet on back; enter amount from line G here. ☐ No. If single, enter 6,050.00. If married, enter 10,900.00. For an explanation of these amounts, see back of form. 5	2,250	00
	6 Subtract line 5 from line 4. If line 5 is larger than line 4, enter 0. This is your taxable income. 6	0	00
Figure your tax	7 Enter your Federal income tax withheld from box 2 of your W-2 form(s). 7	30	00
	8 Tax. Look at line 6 above. Use the amount on line 6 to find your tax in the tax table on pages 24–28 of the booklet. Then, enter the tax from the table on this line. 8	0	00
Refund or amount you owe	9 If line 7 is larger than line 8, subtract line 8 from line 7. This is your refund. 9	30	00
	10 If line 8 is larger than line 7, subtract line 7 from line 8. This is the amount you owe. For details on how to pay, including what to write on your payment, see page 16. 10		

Sign your return Keep a copy of this form for your records.

I have read this return. Under penalties of perjury, I declare that to the best of my knowledge and belief, the return is true, correct, and accurately lists all amounts and sources of income I received during the tax year.

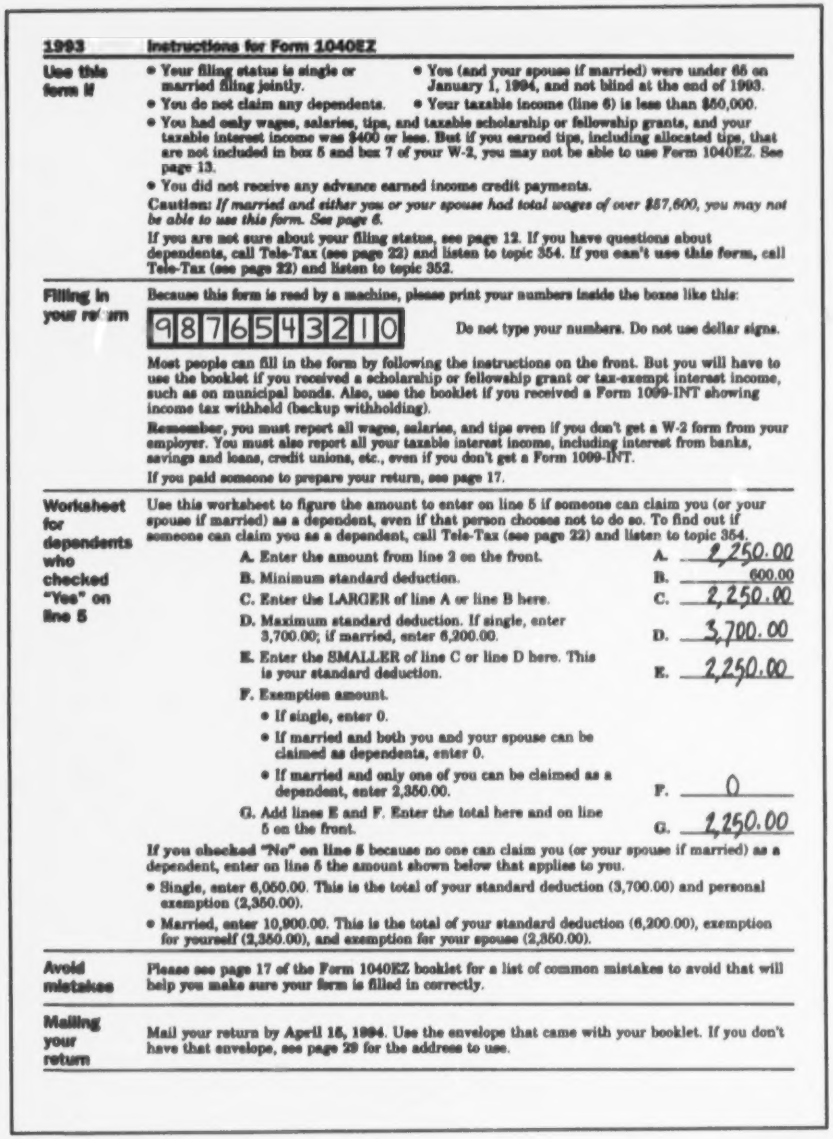
Your signature: Joseph K Day | Spouse's signature if joint return:

Date: 3-6-94 | Your occupation: Student | Date: | Spouse's occupation:

For IRS Use Only — Please do not write in boxes below.

☐☐☐☐
☐☐☐☐

For Privacy Act and Paperwork Reduction Act Notice, see page 4. Cat. No. 11329W Form 1040EZ (1993)



1993 **Instructions for Form 1040EZ**

Use this form if

- Your filing status is single or married filing jointly.
- You (and your spouse if married) were under 65 on January 1, 1994, and not blind at the end of 1993.
- You do not claim any dependents.
- Your taxable income (line 6) is less than $50,000.
- You had only wages, salaries, tips, and taxable scholarship or fellowship grants, and your taxable interest income was $400 or less. But if you earned tips, including allocated tips, that are not included in box 5 and box 7 of your W-2, you may not be able to use Form 1040EZ. See page 13.
- You did not receive any advance earned income credit payments.

Caution: *If married and either you or your spouse had total wages of over $57,600, you may not be able to use this form. See page 6.*

If you are not sure about your filing status, see page 12. If you have questions about dependents, call Tele-Tax (see page 22) and listen to topic 354. If you can't use this form, call Tele-Tax (see page 22) and listen to topic 352.

Filling in your return

Because this form is read by a machine, please print your numbers inside the boxes like this:

9876543210 Do not type your numbers. Do not use dollar signs.

Most people can fill in the form by following the instructions on the front. But you will have to use the booklet if you received a scholarship or fellowship grant or tax-exempt interest income, such as on municipal bonds. Also, use the booklet if you received a Form 1099-INT showing income tax withheld (backup withholding).

Remember, you must report all wages, salaries, and tips even if you don't get a W-2 form from your employer. You must also report all your taxable interest income, including interest from banks, savings and loans, credit unions, etc., even if you don't get a Form 1099-INT.

If you paid someone to prepare your return, see page 17.

Worksheet for dependents who checked "Yes" on line 5

Use this worksheet to figure the amount to enter on line 5 if someone can claim you (or your spouse if married) as a dependent, even if that person chooses not to do so. To find out if someone can claim you as a dependent, call Tele-Tax (see page 22) and listen to topic 354.

A. Enter the amount from line 2 on the front.	A.	2,250.00
B. Minimum standard deduction.	B.	600.00
C. Enter the LARGER of line A or line B here.	C.	2,250.00
D. Maximum standard deduction. If single, enter 3,700.00; if married, enter 6,200.00.	D.	3,700.00
E. Enter the SMALLER of line C or line D here. This is your standard deduction.	E.	2,250.00
F. Exemption amount. • If single, enter 0. • If married and both you and your spouse can be claimed as dependents, enter 0. • If married and only one of you can be claimed as a dependent, enter 2,350.00.	F.	0
G. Add lines E and F. Enter the total here and on line 5 on the front.	G.	2,250.00

If you checked "No" on line 5 because no one can claim you (or your spouse if married) as a dependent, enter on line 5 the amount shown below that applies to you.

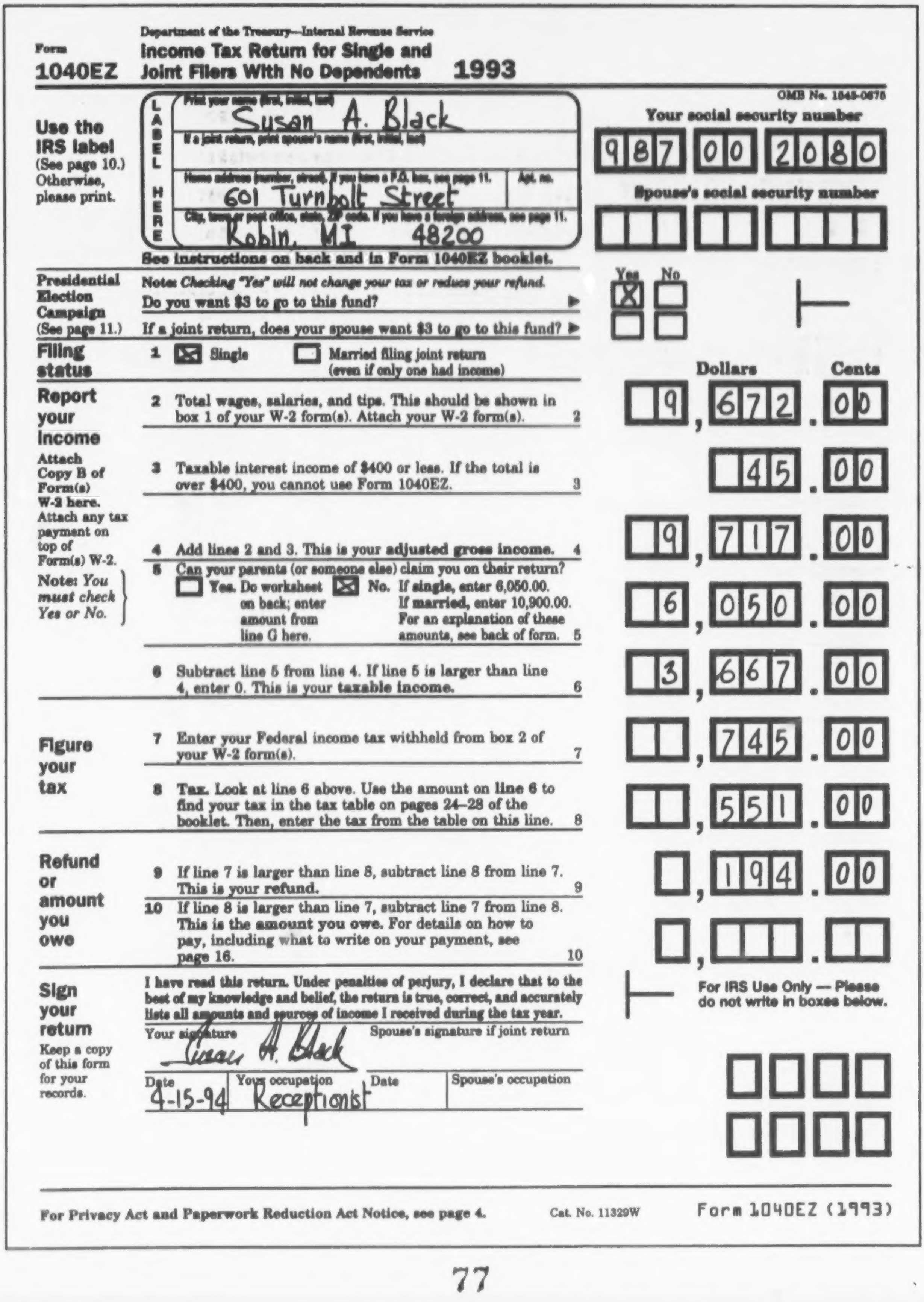
- Single, enter 6,050.00. This is the total of your standard deduction (3,700.00) and personal exemption (2,350.00).
- Married, enter 10,900.00. This is the total of your standard deduction (6,200.00), exemption for yourself (2,350.00), and exemption for your spouse (2,350.00).

Avoid mistakes Please see page 17 of the Form 1040EZ booklet for a list of common mistakes to avoid that will help you make sure your form is filled in correctly.

Mailing your return Mail your return by April 15, 1994. Use the envelope that came with your booklet. If you don't have that envelope, see page 29 for the address to use.

BEST COPY AVAILABLE

CASE STUDY D



Form **1040EZ**

Department of the Treasury—Internal Revenue Service

Income Tax Return for Single and Joint Filers With No Dependents 1993

OMB No. 1545-0675

Use the IRS label (See page 10.) Otherwise, please print.

LABEL HERE

Print your name (first, initial, last): Susan A. Black

If a joint return, print spouse's name (first, initial, last):

Home address (number, street). If you have a P.O. box, see page 11.: 601 Turnbolt Street

Apt. no.:

City, town or post office, state, ZIP code. If you have a foreign address, see page 11.: Robin, MI 48200

Your social security number 987 00 2080

Spouse's social security number

See instructions on back and in Form 1040EZ booklet.

Presidential Election Campaign (See page 11.)

Note: *Checking "Yes" will not change your tax or reduce your refund.*

Do you want $3 to go to this fund? Yes ☒ No ☐

If a joint return, does your spouse want $3 to go to this fund? Yes ☐ No ☐

Filing status 1 ☒ Single ☐ Married filing joint return (even if only one had income)

			Dollars	Cents
Report your income	2	Total wages, salaries, and tips. This should be shown in box 1 of your W-2 form(s). Attach your W-2 form(s).	9,672	00
Attach Copy B of Form(s) W-2 here. Attach any tax payment on top of Form(s) W-2.	3	Taxable interest income of $400 or less. If the total is over $400, you cannot use Form 1040EZ.	45	00
	4	Add lines 2 and 3. This is your **adjusted gross income.**	9,717	00
Note: You must check Yes or No.	5	Can your parents (or someone else) claim you on their return? ☐ Yes. Do worksheet on back; enter amount from line G here. ☒ No. If single, enter 6,050.00. If married, enter 10,900.00. For an explanation of these amounts, see back of form.	6,050	00
	6	Subtract line 5 from line 4. If line 5 is larger than line 4, enter 0. This is your **taxable income.**	3,667	00
Figure your tax	7	Enter your Federal income tax withheld from box 2 of your W-2 form(s).	745	00
	8	**Tax.** Look at line 6 above. Use the amount on line 6 to find your tax in the tax table on pages 24–28 of the booklet. Then, enter the tax from the table on this line.	551	00
Refund or amount you owe	9	If line 7 is larger than line 8, subtract line 8 from line 7. This is your **refund.**	194	00
	10	If line 8 is larger than line 7, subtract line 7 from line 8. This is the **amount you owe.** For details on how to pay, including what to write on your payment, see page 16.		

Sign your return

Keep a copy of this form for your records.

I have read this return. Under penalties of perjury, I declare that to the best of my knowledge and belief, the return is true, correct, and accurately lists all amounts and sources of income I received during the tax year.

Your signature: Susan A. Black

Spouse's signature if joint return:

Date: 4-15-94

Your occupation: Receptionist

Date:

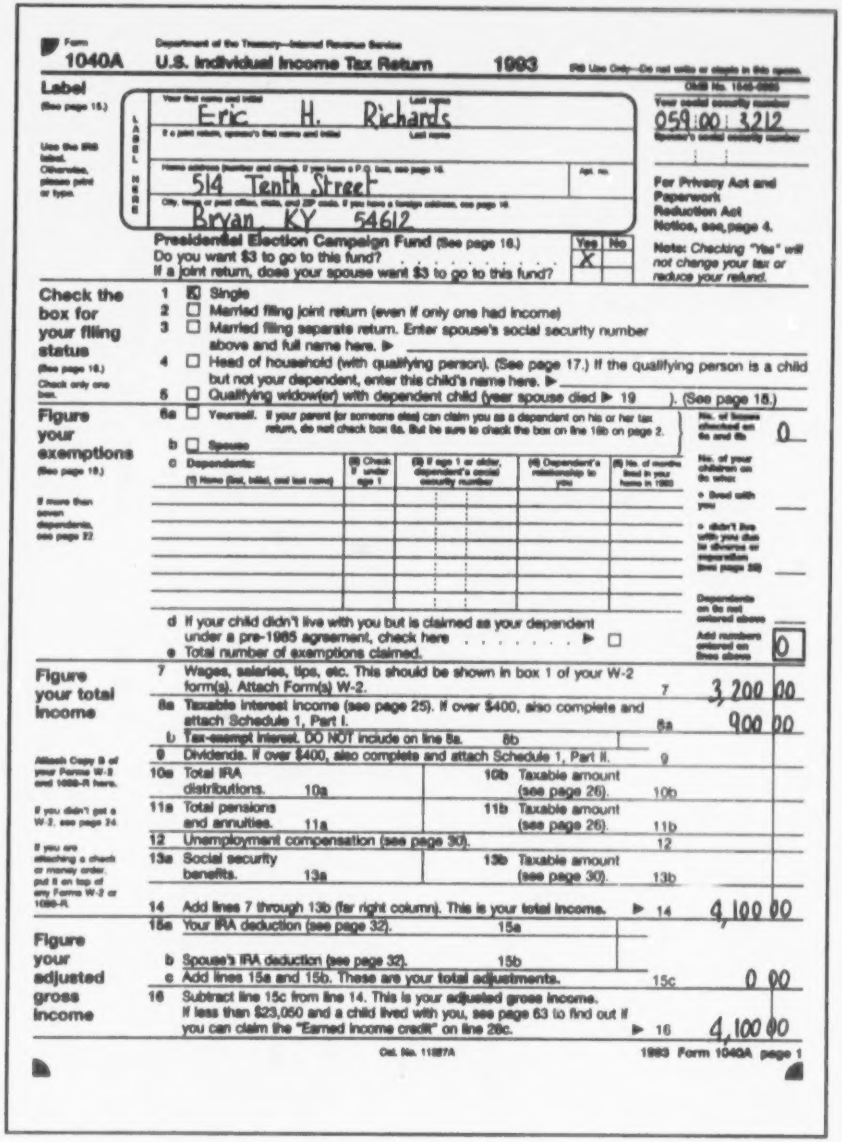
Spouse's occupation:

For IRS Use Only — Please do not write in boxes below.

For Privacy Act and Paperwork Reduction Act Notice, see page 4.

Cat. No. 11329W

Form 1040EZ (1993)



Form **1040A** Department of the Treasury—Internal Revenue Service
U.S. Individual Income Tax Return **1993** IRS Use Only—Do not write or staple in this space.
OMB No. 1545-0085

Label (See page 15.)
Use the IRS label. Otherwise, please print or type.
LABEL HERE

Your first name and initial: Eric H. Last name: Richards
If a joint return, spouse's first name and initial: Last name:
Home address (number and street). If you have a P.O. box, see page 15.: 514 Tenth Street Apt. no.:
City, town or post office, state, and ZIP code. If you have a foreign address, see page 15.: Bryan, KY 54612

Your social security number: 059 : 00 : 3212
Spouse's social security number: : :

For Privacy Act and Paperwork Reduction Act Notice, see page 4.

Presidential Election Campaign Fund (See page 15.)

	Yes	No
Do you want $3 to go to this fund?	X	
If a joint return, does your spouse want $3 to go to this fund?		

Note: *Checking "Yes" will not change your tax or reduce your refund.*

Check the box for your filing status (See page 15.) Check only one box.
1 ☒ Single
2 ☐ Married filing joint return (even if only one had income)
3 ☐ Married filing separate return. Enter spouse's social security number above and full name here. ▶
4 ☐ Head of household (with qualifying person). (See page 17.) If the qualifying person is a child but not your dependent, enter this child's name here. ▶
5 ☐ Qualifying widow(er) with dependent child (year spouse died ▶ 19). (See page 18.)

Figure your exemptions (See page 18.)
6a ☐ Yourself. If your parent (or someone else) can claim you as a dependent on his or her tax return, do not check box 6a. But be sure to check the box on line 18b on page 2.
b ☐ Spouse
No. of boxes checked on 6a and 6b: 0
c Dependents:

(1) Name (first, initial, and last name)	(2) Check if under age 1	(3) If age 1 or older, dependent's social security number	(4) Dependent's relationship to you	(5) No. of months lived in your home in 1993

If more than seven dependents, see page 22.

No. of your children on 6c who:
• lived with you ____
• didn't live with you due to divorce or separation (see page 22) ____
Dependents on 6c not entered above ____
d If your child didn't live with you but is claimed as your dependent under a pre-1985 agreement, check here ▶ ☐
e Total number of exemptions claimed.
Add numbers entered on lines above: 0

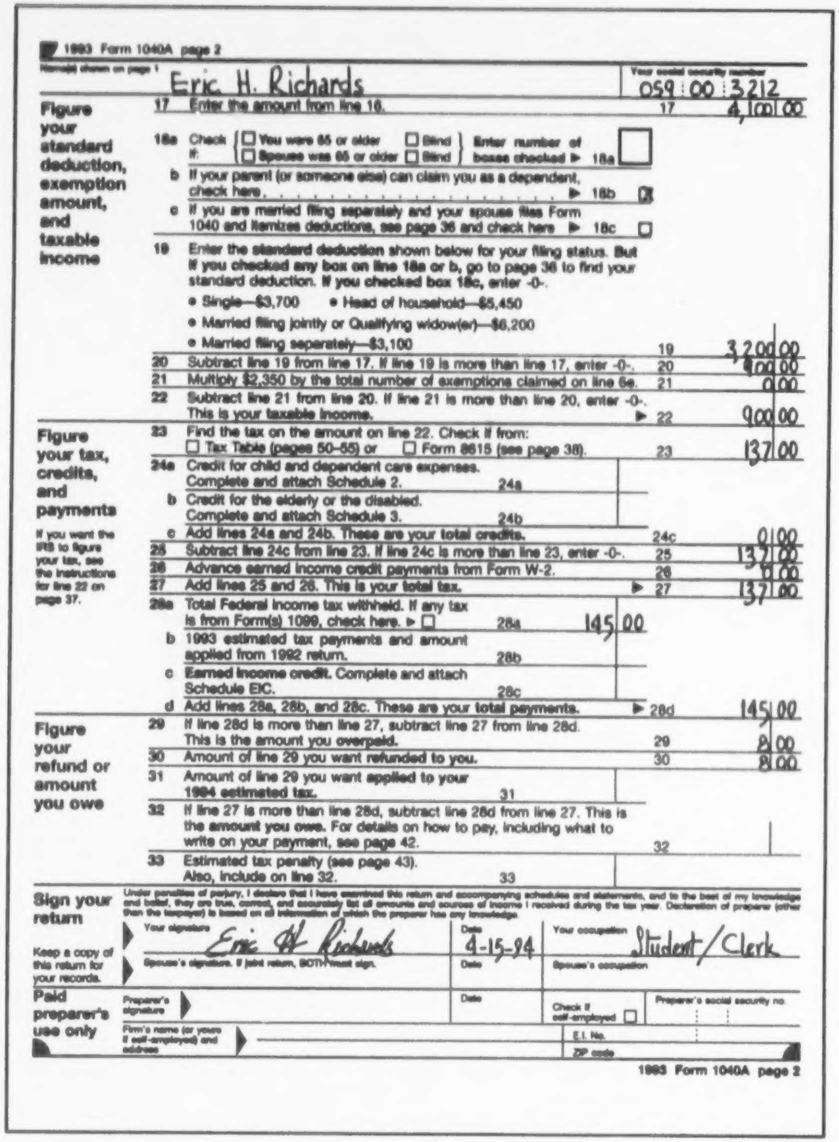
Figure your total income
Attach Copy B of your Forms W-2 and 1099-R here.
If you didn't get a W-2, see page 24.
If you are attaching a check or money order, put it on top of any Forms W-2 or 1099-R.

7	Wages, salaries, tips, etc. This should be shown in box 1 of your W-2 form(s). Attach Form(s) W-2.	7	3,200 00
8a	Taxable interest income (see page 25). If over $400, also complete and attach Schedule 1, Part I.	8a	900 00
b	Tax-exempt interest. DO NOT include on line 8a. 8b		
9	Dividends. If over $400, also complete and attach Schedule 1, Part II.	9	
10a	Total IRA distributions. 10a — 10b Taxable amount (see page 26).	10b	
11a	Total pensions and annuities. 11a — 11b Taxable amount (see page 26).	11b	
12	Unemployment compensation (see page 30).	12	
13a	Social security benefits. 13a — 13b Taxable amount (see page 30).	13b	
14	Add lines 7 through 13b (far right column). This is your total income. ▶	14	4,100 00

Figure your adjusted gross income

15a	Your IRA deduction (see page 32). 15a		
b	Spouse's IRA deduction (see page 32). 15b		
c	Add lines 15a and 15b. These are your total adjustments.	15c	0 00
16	Subtract line 15c from line 14. This is your adjusted gross income. If less than $23,050 and a child lived with you, see page 63 to find out if you can claim the "Earned income credit" on line 28c. ▶	16	4,100 00

Cat. No. 11327A 1993 Form 1040A page 1



1993 Form 1040A page 2
Name(s) shown on page 1: Eric H. Richards
Your social security number: 059 : 00 : 3212

Figure your standard deduction, exemption amount, and taxable income
17 Enter the amount from line 16. 17: 4,100 00
18a Check if: {☐ You were 65 or older ☐ Blind / ☐ Spouse was 65 or older ☐ Blind} Enter number of boxes checked ▶ 18a ☐
b If your parent (or someone else) can claim you as a dependent, check here ▶ 18b ☒
c If you are married filing separately and your spouse files Form 1040 and itemizes deductions, see page 36 and check here ▶ 18c ☐
19 Enter the standard deduction shown below for your filing status. But if you checked any box on line 18a or b, go to page 36 to find your standard deduction. If you checked box 18c, enter -0-.
• Single—$3,700 • Head of household—$5,450
• Married filing jointly or Qualifying widow(er)—$6,200
• Married filing seperately—$3,100

19		19	3,200 00
20	Subtract line 19 from line 17. If line 19 is more than line 17, enter -0-.	20	900 00
21	Multiply $2,350 by the total number of exemptions claimed on line 6e.	21	0 00
22	Subtract line 21 from line 20. If line 21 is more than line 20, enter -0-. This is your taxable income. ▶	22	900 00

Figure your tax, credits, and payments
If you want the IRS to figure your tax, see the instructions for line 22 on page 37.

23	Find the tax on the amount on line 22. Check if from: ☐ Tax Table (pages 50–55) or ☐ Form 8615 (see page 38).	23	137 00
24a	Credit for child and dependent care expenses. Complete and attach Schedule 2. 24a		
b	Credit for the elderly or the disabled. Complete and attach Schedule 3. 24b		
c	Add lines 24a and 24b. These are your total credits.	24c	0 00
25	Subtract line 24c from line 23. If line 24c is more than line 23, enter -0-.	25	137 00
26	Advance earned income credit payments from Form W-2.	26	0 00
27	Add lines 25 and 26. This is your total tax. ▶	27	137 00
28a	Total Federal income tax withheld. If any tax is from Form(s) 1099, check here. ▶ ☐ 28a 145 00		
b	1993 estimated tax payments and amount applied from 1992 return. 28b		
c	Earned income credit. Complete and attach Schedule EIC. 28c		
d	Add lines 28a, 28b, and 28c. These are your total payments. ▶	28d	145 00

Figure your refund or amount you owe

29	If line 28d is more than line 27, subtract line 27 from line 28d. This is the amount you overpaid.	29	8 00
30	Amount of line 29 you want refunded to you.	30	8 00
31	Amount of line 29 you want applied to your 1994 estimated tax. 31		
32	If line 27 is more than line 28d, subtract line 28d from line 27. This is the amount you owe. For details on how to pay, including what to write on your payment, see page 42.	32	
33	Estimated tax penalty (see page 43). Also, include on line 32. 33		

Sign your return
Keep a copy of this return for your records.
Under penalties of perjury, I declare that I have examined this return and accompanying schedules and statements, and to the best of my knowledge and belief, they are true, correct, and accurately list all amounts and sources of income I received during the tax year. Declaration of preparer (other than the taxpayer) is based on all information of which the preparer has any knowledge.
▶ Your signature: Eric H Richards Date: 4-15-94 Your occupation: Student/Clerk
▶ Spouse's signature. If joint return, BOTH must sign. Date: Spouse's occupation:

Paid preparer's use only
Preparer's signature ▶ Date: Check if self-employed ☐ Preparer's social security no. : :
Firm's name (or yours if self-employed) and address ▶ E.I. No. ZIP code

1993 Form 1040A page 2

Schedule 1 (Form 1040A)

Department of the Treasury—Internal Revenue Service

Interest and Dividend Income for Form 1040A Filers

1993

OMB No. 1545-0085

Name(s) shown on Form 1040A: Eric H. Richards

Your social security number: 059 : 00 : 3212

Part I

Interest income

(See pages 25 and 56.)

Note: *If you received a Form 1099–INT, Form 1099–OID, or substitute statement, from a brokerage firm, enter the firm's name and the total interest shown on that form.*

			Amount
1	List name of payer. If any interest is from a seller-financed mortgage and the buyer used the property as a personal residence, see page 56 and list this interest first. Also, show that buyer's social security number and address.		
	Bryan National Bank	1	900 00
2	Add the amounts on line 1.	2	900 00
3	Excludable interest on series EE U.S. savings bonds issued after 1989 from Form 8815, line 14. You MUST attach Form 8815 to Form 1040A.	3	0 00
4	Subtract line 3 from line 2. Enter the result here and on Form 1040A, line 8a.	4	900 00

Part II

Dividend income

(See pages 25 and 57.)

Note: *If you received a Form 1099–DIV or substitute statement from a brokerage firm, enter the firm's name and the total dividends shown on that form.*

			Amount
5	List name of payer	5	
6	Add the amounts on line 5. Enter the total here and on Form 1040A, line 9.	6	

For Paperwork Reduction Act Notice, see Form 1040A instructions. Cat. No. 12075R 1993 Schedule 1 (Form 1040A) page 1

Standard deduction chart for people age 65 or older or blind

Standard deduction chart for people age 65 or older or blind

If someone can claim you as a dependent, use the worksheet below instead.

Enter the number from the box on line 18a of Form 1040A. ▶ ☐

Caution: *Do not use the number of exemptions from line 6e.*

If your filing status is:	And the number in the box above is:	Enter on Form 1040A, line 19:
Single	1	$4,600
	2	$5,500
Married filing a joint return or Qualifying widow(er) with dependent child	1	$6,900
	2	$7,600
	3	$8,300
	4	$9,000
Married filing a separate return	1	$3,800
	2	$4,500
	3	$5,200
	4	$5,900
Head of household	1	$6,350
	2	$7,250

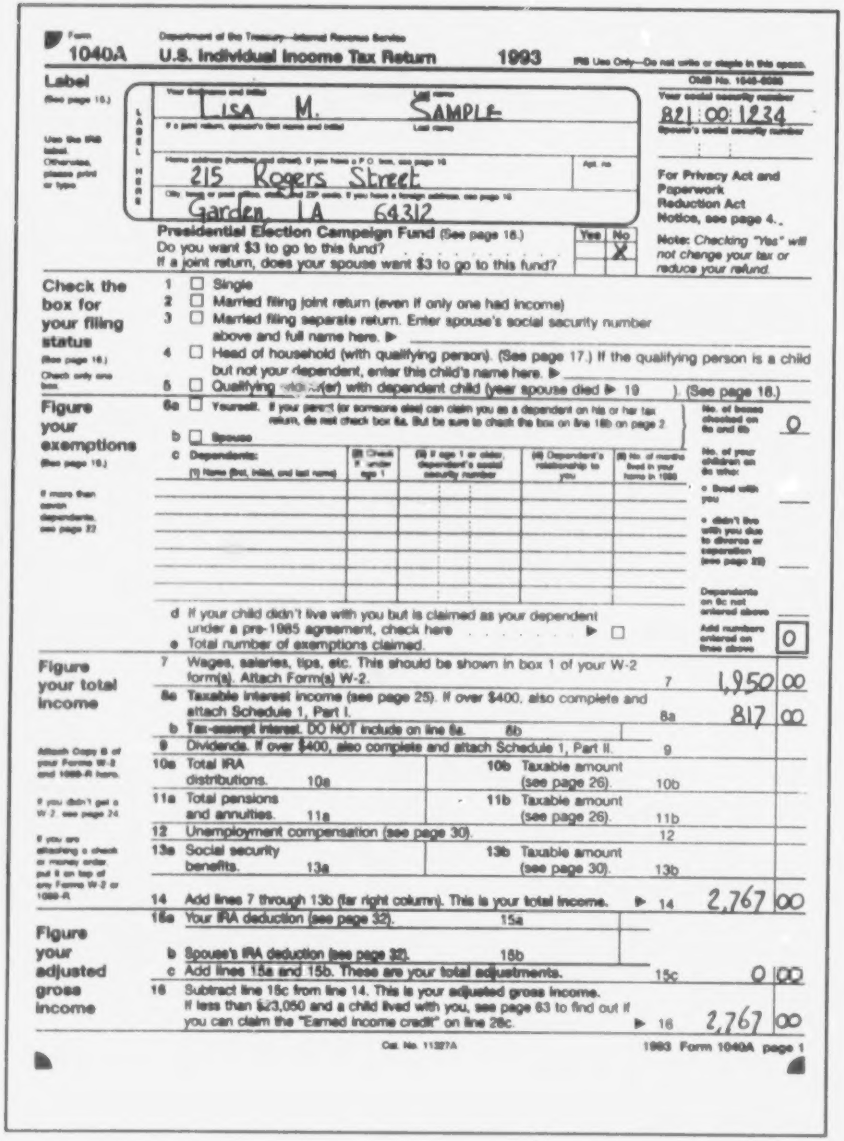
Standard deduction worksheet for dependents

Standard deduction worksheet for dependents (keep for your records)

Use this worksheet ONLY if someone can claim you as a dependent.

1. Enter the amount from Form 1040A, line 7. If none, enter -0-.	1.	3,200.00
2. Minimum amount.	2.	600.00
3. Enter the larger of line 1 or line 2.	3.	3,200.00
4. Enter on line 4 the amount shown below for your filing status. • Single, enter $3,700 • Married filing a separate return, enter $3,100 • Married filing a joint return or Qualifying widow(er) with dependent child, enter $6,200 • Head of household, enter $5,450	4.	3,700.00
5. Standard deduction.		
a. Enter the smaller of line 3 or line 4. If under 65 and not blind, stop here and enter this amount on Form 1040A, line 19. Otherwise, go to line 5b.	5a.	3,200.00
b. If 65 or older or blind, multiply $900 ($700 if married filing a joint or separate return, or qualifying widow(er) with dependent child) by the number on Form 1040A, line 18a.	5b.	
c. Add lines 5a and 5b. Enter the total here and on Form 1040A, line 19.	5c.	

CASE STUDY E



Form **1040A** Department of the Treasury—Internal Revenue Service
U.S. Individual Income Tax Return **1993** IRS Use Only—Do not write or staple in this space.
OMB No. 1545-0085

Label (See page 15.)
Use the IRS label. Otherwise, please print or type.
LABEL HERE
Your first name and initial: Lisa M. Last name: Sample
If a joint return, spouse's first name and initial: Last name:
Home address (number and street). If you have a P.O. box, see page 16. 215 Rogers Street Apt. no.
City, town or post office, state, and ZIP code. If you have a foreign address, see page 16. Garden, LA 64312
Your social security number: 821 : 00 : 1234
Spouse's social security number:
For Privacy Act and Paperwork Reduction Act Notice, see page 4.

Presidential Election Campaign Fund (See page 16.) Yes No
Do you want $3 to go to this fund? No: X
If a joint return, does your spouse want $3 to go to this fund?
Note: *Checking "Yes" will not change your tax or reduce your refund.*

Check the box for your filing status (See page 16.) Check only one box.
1 ☐ Single
2 ☐ Married filing joint return (even if only one had income)
3 ☐ Married filing separate return. Enter spouse's social security number above and full name here. ▶
4 ☐ Head of household (with qualifying person). (See page 17.) If the qualifying person is a child but not your dependent, enter this child's name here. ▶
5 ☐ Qualifying widow(er) with dependent child (year spouse died ▶ 19). (See page 18.)

Figure your exemptions (See page 19.)
6a ☐ Yourself. If your parent (or someone else) can claim you as a dependent on his or her tax return, do not check box 6a. But be sure to check the box on line 18b on page 2.
b ☐ Spouse
No. of boxes checked on 6a and 6b: 0
c Dependents:

(1) Name (first, initial, and last name)	(2) Check if under age 1	(3) If age 1 or older, dependent's social security number	(4) Dependent's relationship to you	(5) No. of months lived in your home in 1993

If more than seven dependents, see page 22.
No. of your children on 6c who:
- lived with you
- didn't live with you due to divorce or separation (see page 22)

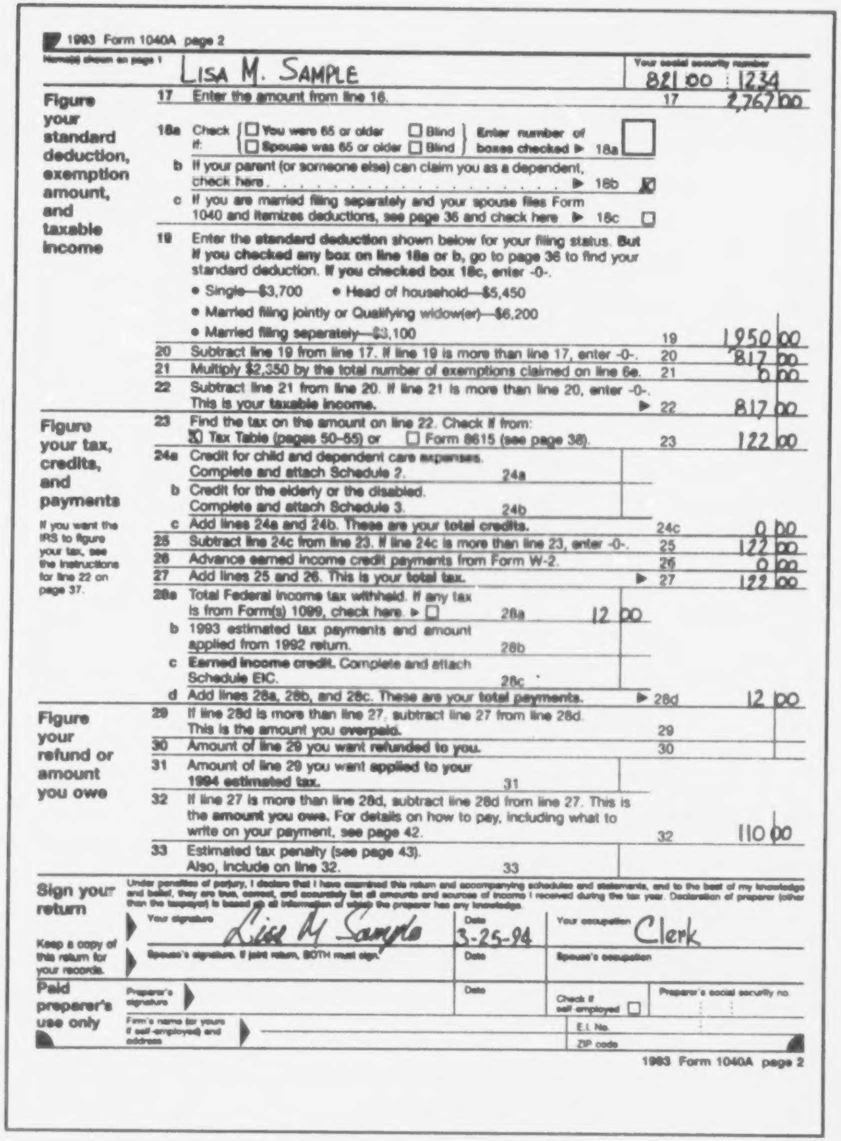
Dependents on 6c not entered above
d If your child didn't live with you but is claimed as your dependent under a pre-1985 agreement, check here ▶ ☐
e Total number of exemptions claimed.
Add numbers entered on lines above: 0

Figure your total income
7 Wages, salaries, tips, etc. This should be shown in box 1 of your W-2 form(s). Attach Form(s) W-2. 7 1,950 00
8a Taxable interest income (see page 25). If over $400, also complete and attach Schedule 1, Part I. 8a 817 00
b Tax-exempt interest. DO NOT include on line 8a. 8b
9 Dividends. If over $400, also complete and attach Schedule 1, Part II. 9
10a Total IRA distributions. 10a 10b Taxable amount (see page 26). 10b
11a Total pensions and annuities. 11a 11b Taxable amount (see page 26). 11b
12 Unemployment compensation (see page 30). 12
13a Social security benefits. 13a 13b Taxable amount (see page 30). 13b
14 Add lines 7 through 13b (far right column). This is your total income. ▶ 14 2,767 00

Attach Copy B of your Forms W-2 and 1099-R here.
If you didn't get a W-2, see page 24.
If you are attaching a check or money order, put it on top of any Forms W-2 or 1099-R.

Figure your adjusted gross income
15a Your IRA deduction (see page 32). 15a
b Spouse's IRA deduction (see page 32). 15b
c Add lines 15a and 15b. These are your total adjustments. 15c 0 00
16 Subtract line 15c from line 14. This is your adjusted gross income. If less than $23,050 and a child lived with you, see page 63 to find out if you can claim the "Earned income credit" on line 28c. ▶ 16 2,767 00

Cat. No. 11327A
1993 Form 1040A page 1



1993 Form 1040A page 2
Name(s) shown on page 1: Lisa M. Sample
Your social security number: 821 00 : 1234

Figure your standard deduction, exemption amount, and taxable income
17 Enter the amount from line 16. 17 2,767 00
18a Check if: ☐ You were 65 or older ☐ Blind; ☐ Spouse was 65 or older ☐ Blind. Enter number of boxes checked ▶ 18a ☐
b If your parent (or someone else) can claim you as a dependent, check here ▶ 18b ☒
c If you are married filing separately and your spouse files Form 1040 and itemizes deductions, see page 36 and check here ▶ 18c ☐
19 Enter the **standard deduction** shown below for your filing status. **But if you checked any box on line 18a or b, go to page 36 to find your standard deduction. If you checked box 18c, enter -0-.**
- Single—$3,700
- Head of household—$5,450
- Married filing jointly or Qualifying widow(er)—$6,200
- Married filing separately—$3,100

19 1950 00
20 Subtract line 19 from line 17. If line 19 is more than line 17, enter -0-. 20 817 00
21 Multiply $2,350 by the total number of exemptions claimed on line 6e. 21 0 00
22 Subtract line 21 from line 20. If line 21 is more than line 20, enter -0-. This is your **taxable income.** ▶ 22 817 00

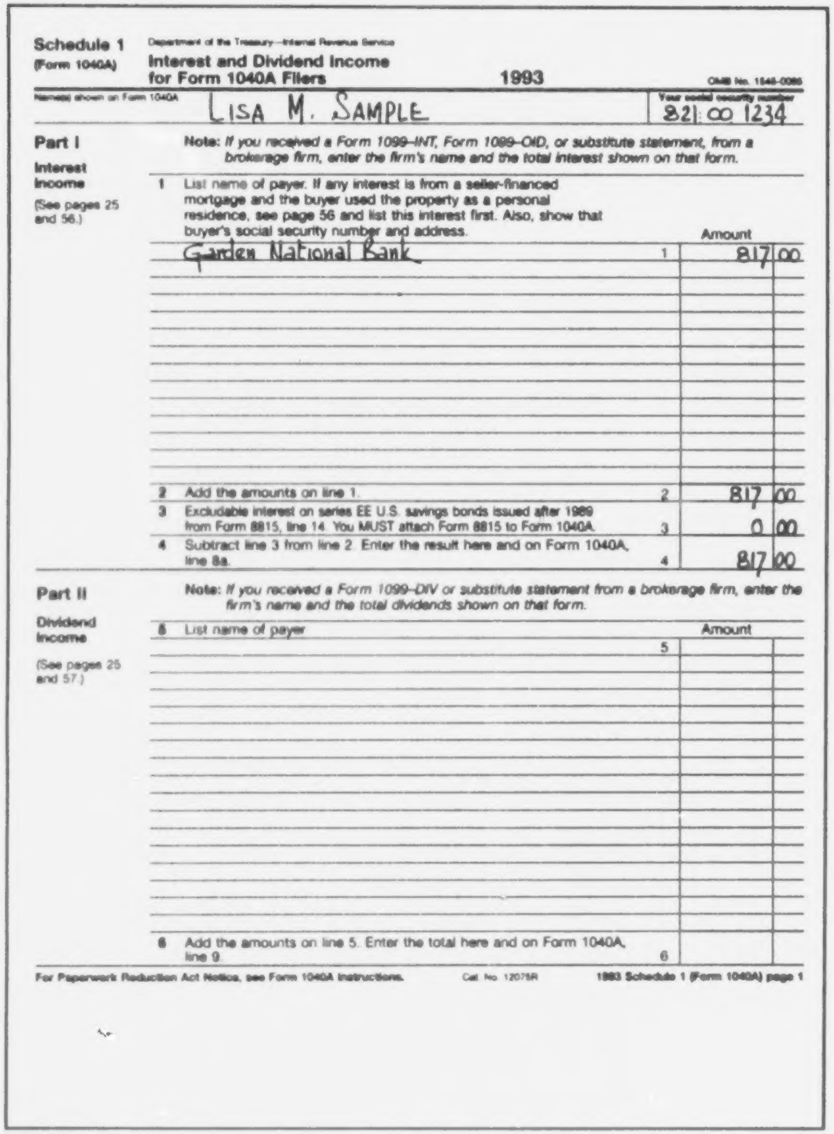
Figure your tax, credits, and payments
If you want the IRS to figure your tax, see the instructions for line 22 on page 37.
23 Find the tax on the amount on line 22. Check if from: ☒ Tax Table (pages 50–55) or ☐ Form 8615 (see page 38). 23 122 00
24a Credit for child and dependent care expenses. Complete and attach Schedule 2. 24a
b Credit for the elderly or the disabled. Complete and attach Schedule 3. 24b
c Add lines 24a and 24b. These are your **total credits.** 24c 0 00
25 Subtract line 24c from line 23. If line 24c is more than line 23, enter -0-. 25 122 00
26 Advance earned income credit payments from Form W-2. 26 0 00
27 Add lines 25 and 26. This is your **total tax.** ▶ 27 122 00
28a Total Federal income tax withheld. If any tax is from Form(s) 1099, check here. ▶ ☐ 28a 12 00
b 1993 estimated tax payments and amount applied from 1992 return. 28b
c **Earned income credit.** Complete and attach Schedule EIC. 28c
d Add lines 28a, 28b, and 28c. These are your **total payments.** ▶ 28d 12 00

Figure your refund or amount you owe
29 If line 28d is more than line 27, subtract line 27 from line 28d. This is the amount you **overpaid.** 29
30 Amount of line 29 you want **refunded to you.** 30
31 Amount of line 29 you want **applied to your 1994 estimated tax.** 31
32 If line 27 is more than line 28d, subtract line 28d from line 27. This is the **amount you owe.** For details on how to pay, including what to write on your payment, see page 42. 32 110 00
33 Estimated tax penalty (see page 43). Also, include on line 32. 33

Sign your return
Keep a copy of this return for your records.
Under penalties of perjury, I declare that I have examined this return and accompanying schedules and statements, and to the best of my knowledge and belief, they are true, correct, and accurately list all amounts and sources of income I received during the tax year. Declaration of preparer (other than the taxpayer) is based on all information of which the preparer has any knowledge.
▶ Your signature: Lisa M Sample Date: 3-25-94 Your occupation: Clerk
▶ Spouse's signature. If joint return, BOTH must sign. Date Spouse's occupation

Paid preparer's use only
Preparer's signature ▶ Date Check if self-employed ☐ Preparer's social security no.
Firm's name (or yours if self-employed) and address ▶ E.I. No. ZIP code

1993 Form 1040A page 2



Schedule 1
(Form 1040A)

Department of the Treasury—Internal Revenue Service
Interest and Dividend Income for Form 1040A Filers
1993
OMB No. 1545-0085

Name(s) shown on Form 1040A: LISA M. SAMPLE
Your social security number: 821 00 1234

Part I
Interest Income
(See pages 25 and 56.)

Note: *If you received a Form 1099–INT, Form 1099–OID, or substitute statement, from a brokerage firm, enter the firm's name and the total interest shown on that form.*

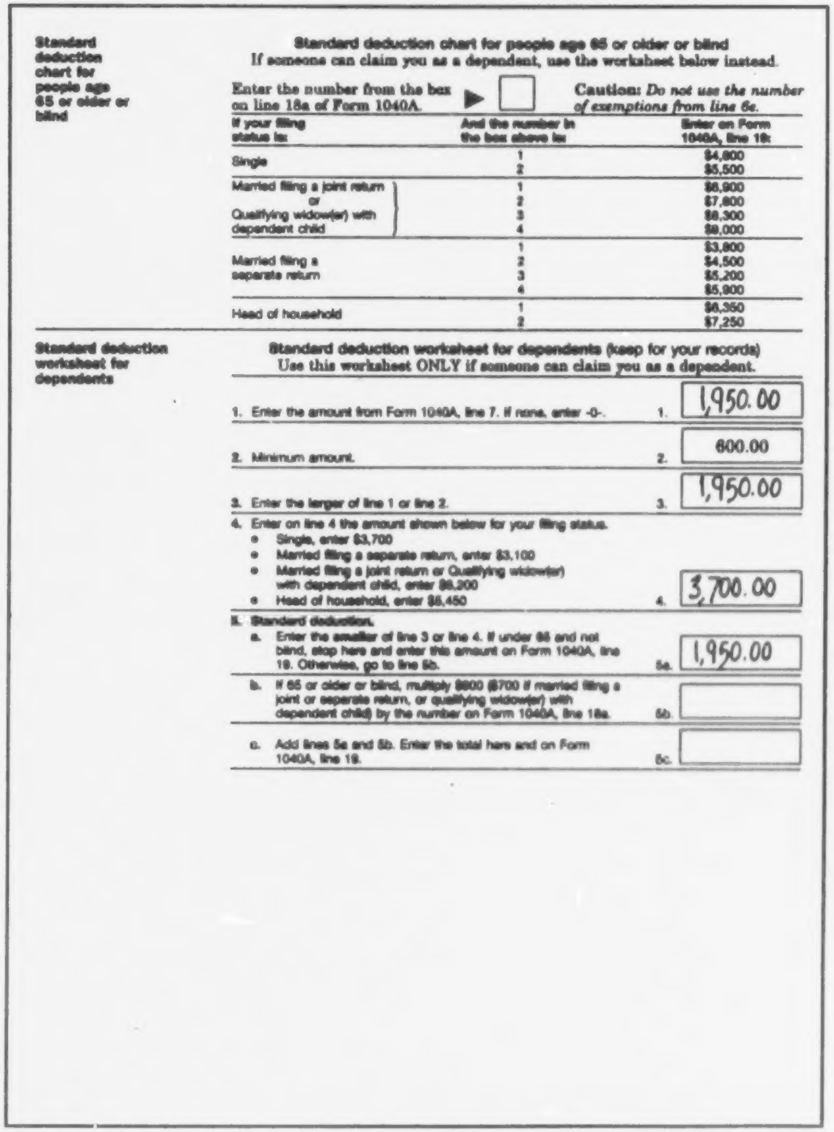
			Amount	
1	List name of payer. If any interest is from a seller-financed mortgage and the buyer used the property as a personal residence, see page 56 and list this interest first. Also, show that buyer's social security number and address.			
	Garden National Bank	1	817	00
2	Add the amounts on line 1.	2	817	00
3	Excludable interest on series EE U.S. savings bonds issued after 1989 from Form 8815, line 14. You MUST attach Form 8815 to Form 1040A.	3	0	00
4	Subtract line 3 from line 2. Enter the result here and on Form 1040A, line 8a.	4	817	00

Part II
Dividend Income
(See pages 25 and 57.)

Note: *If you received a Form 1099–DIV or substitute statement from a brokerage firm, enter the firm's name and the total dividends shown on that form.*

			Amount	
5	List name of payer	5		
6	Add the amounts on line 5. Enter the total here and on Form 1040A, line 9.	6		

For Paperwork Reduction Act Notice, see Form 1040A instructions. Cat. No. 12075R **1993 Schedule 1 (Form 1040A) page 1**



Standard deduction chart for people age 65 or older or blind

Standard deduction chart for people age 65 or older or blind
If someone can claim you as a dependent, use the worksheet below instead.

Enter the number from the box on line 18a of Form 1040A. ▶ ☐ **Caution:** *Do not use the number of exemptions from line 6e.*

If your filing status is:	And the number in the box above is:	Enter on Form 1040A, line 19:
Single	1	$4,600
	2	$5,500
Married filing a joint return or Qualifying widow(er) with dependent child	1	$6,900
	2	$7,600
	3	$8,300
	4	$9,000
Married filing a separate return	1	$3,800
	2	$4,500
	3	$5,200
	4	$5,900
Head of household	1	$6,350
	2	$7,250

Standard deduction worksheet for dependents

Standard deduction worksheet for dependents (keep for your records)
Use this worksheet ONLY if someone can claim you as a dependent.

1. Enter the amount from Form 1040A, line 7. If none, enter -0-.	1.	1,950.00
2. Minimum amount.	2.	600.00
3. Enter the larger of line 1 or line 2.	3.	1,950.00
4. Enter on line 4 the amount shown below for your filing status. • Single, enter $3,700 • Married filing a separate return, enter $3,100 • Married filing a joint return or Qualifying widow(er) with dependent child, enter $6,200 • Head of household, enter $5,450	4.	3,700.00
5. **Standard deduction.** a. Enter the smaller of line 3 or line 4. If under 65 and not blind, stop here and enter this amount on Form 1040A, line 19. Otherwise, go to line 5b.	5a.	1,950.00
b. If 65 or older or blind, multiply $900 ($700 if married filing a joint or separate return, or qualifying widow(er) with dependent child) by the number on Form 1040A, line 18a.	5b.	
c. Add lines 5a and 5b. Enter the total here and on Form 1040A, line 19.	5c.	

NOTES

UNDERSTANDING
State and Local Taxes

Lessons:

State and Local Taxes

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KEY TERMS AND CONCEPTS

PURPOSE

To help students understand that state and local governments need revenues to provide goods and services for their residents.

OBJECTIVES

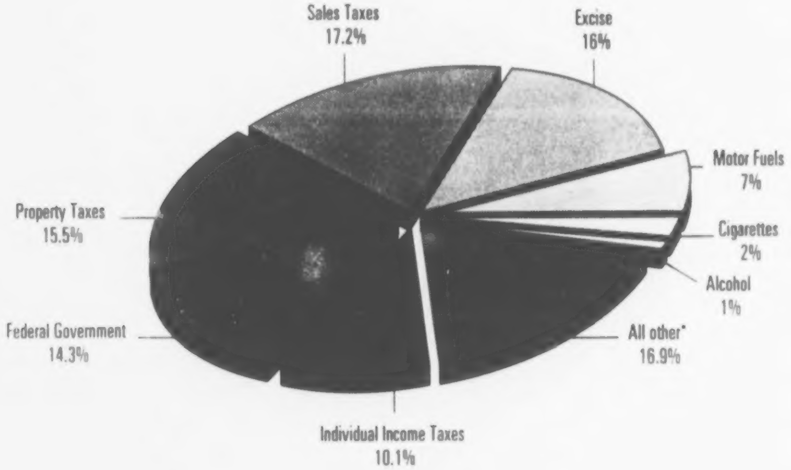
After viewing the video program and participating in the suggested activities, students will be able to:

- identify kinds of taxes most commonly collected by state and local governments
- give examples of goods and services most commonly provided by state and local tax revenues

TYPE OF TAX	DEFINITION	EXAMPLES	REVENUES SUPPORT
Transaction Taxes	Taxes on economic transactions, such as the sale of goods and services. Such taxes can be based on a set percentage of the sales value (ad valorem—sales taxes) or they can be a set amount on physical quantities ("per unit"—gasoline taxes)	● Retail sales taxes ● Excise taxes on vehicles, boats, gasoline, tobacco ● "Value added" taxes imposed on goods at each stage of processing ● Restaurant and hotel taxes	● State and local services, such as education, welfare, Medicaid, police, employment services, parks, fish and wildlife ● Gasoline taxes are often earmarked for state highway construction and maintenance
Income Taxes	Taxes on income, both earned (e.g., salaries, wages, tips, commissions) and unearned (e.g., interest, dividends). Income taxes can be levied both on individuals (personal income taxes) and on corporations (business and corporate income taxes).	● State or local withholding taxes ● Taxes on interest or dividend payments ● Taxes on awards or prizes ● Taxes on profits and earnings of businesses	● Increasingly supplementing or supplanting sales taxes to support state expenses ● beginning to be used on local level as well, largely to support education and welfare programs
Property Taxes	Increasingly supplementing or supplanting sales taxes to support state expenses beginning to be used on local level as well, largely to support education and welfare programs	● Taxes on property, especially real estate (land and buildings), and also boats, recreational vehicles, business inventories ● Property tax on "assessed valuation" of land, home, business, or other structures, the traditional and still most common kind of local tax ● May be assessed on other assets, such as automobiles, boats or recreational vehicles, business inventories, or stocks and bonds ("intangibles")	Traditional source of funding of schools and local services (police, fire, libraries, parks, water, and sanitation)

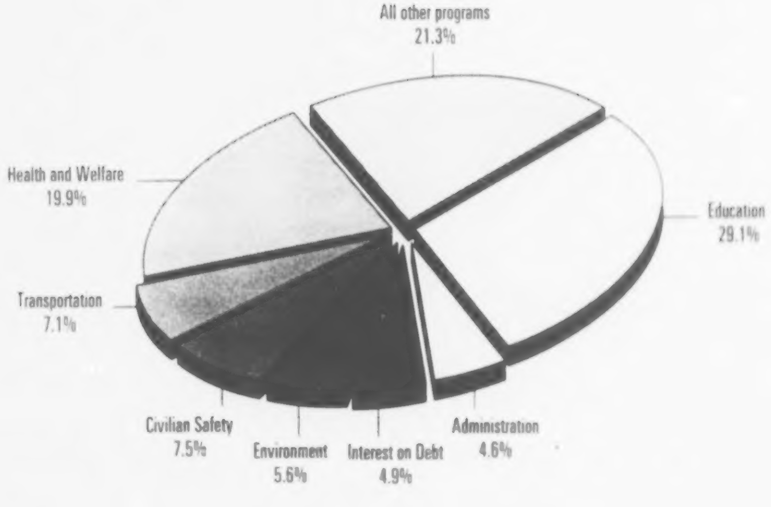
THE STATE AND LOCAL DOLLAR

Where it came from:



*Includes other taxes, charges, misc. revenue, utilities, liquor stores and insurance trust revenues.

Where it went:



LESSON 4
STATE AND LOCAL TAXES

PURPOSE

To help students understand that they state and local governments need revenues to provide goods and services for their residents.

OBJECTIVES

After participating in the suggested activities, students will be able to:

- identify kinds of taxes most commonly collected by state and local governments
- give examples of goods and services most commonly provided by state and local tax revenues

MATERIALS

- Student Handout 4.1, "Key Terms and Concepts"
- Student Handout 4.2, "State and Local Revenues and Spending, 1991" (also used in Lessons 9 and 11)

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KEY TERMS

Transaction Taxes
Taxes on economic transactions, such as the sale of goods and services. Such taxes can be based on a set percentage of the sales value (ad valorem—sales taxes) or they can be a set amount on physical quantities ("per unit"—gasoline taxes).

Income Taxes
Taxes on income, both earned (e.g., salaries, wages, tips, commissions) and unearned (e.g., interest, dividends). Income taxes can be levied both on individuals (personal income taxes) and on corporations (business and corporate income taxes).

Property Taxes
Taxes on property, especially real estate, and also boats, automobiles (often paid along with license fees), recreational vehicles, and business inventories.

---

10 minutes

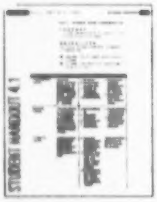
Opening the Lesson

Ask students to suggest all the taxes they or their families have paid recently. List their suggestions on the board.
Depending on your state and local taxes, students may suggest sales tax on purchases; restaurant or hotel tax; gasoline tax; registration or license fees for a car or truck; federal, state, or local withholding tax; social security withholding tax; tax on a phone bill; hunting or fishing license.

Point to each tax you have listed on the board. Ask whether any students know which taxes are local, state, or federal.
In 1993, any general sales taxes are state and local. Taxes withheld from paychecks include federal income tax, social security, and Medicare; state and local taxes may also be withheld. Gasoline is taxed both by the Federal Government and most states. Sales of tobacco and alcohol are taxed in most states. Registration and license fees are imposed by states.

Ask students what their local government (city or county) must raise revenues for.
Education is a major expense of local governments. City streets and county roads are locally built and maintained. City police and county sheriffs, jails, courts, trash disposal, fire departments, and welfare services are among other local expenses.

Developing the Lesson



Distribute copies of Student Handout 4.1, "Key Terms and Concepts" or use an overhead projector to display it.

(This handout is both a "Glossary of Key Terms" and a summary of the main concepts taught in this lesson.)

Explain that there are three kinds of state and local taxes: transaction taxes, income taxes, and property taxes. Point to an example of each in the list on the board, or give an example if none has been suggested.

Sales taxes are the most common kind of transaction taxes. Taxes withheld from a paycheck include income taxes. Homeowners pay property tax, usually in two or more installments per year, but renters may be contributing to their landlord's property tax with each rental payment.

If your state has a sales tax, ask students if they know how much it is. Otherwise, ask if anyone has been in a state with a sales tax and how it worked.

Sales taxes are usually imposed on nearly all retail items, with the exception of some food and sometimes medicine. The amount of the tax is always a standard percentage of the retail price (ad valorem). Some states also charge a tax on services as well—if you have your car repaired, you may pay a tax on new parts installed and possibly on the cost of the labor as well. Most states have a sales tax rate of between two and ten percent. Sometimes counties or cities also impose a sales tax. Sales taxes, especially those that tax goods at each stage of the manufacturing process, are sometimes called "value added" taxes.

Ask whether anyone can explain how excise taxes work and give examples.

Excise taxes are levied by both the federal and state governments. They are specific to certain items. Some excise taxes are "luxury" taxes on large, expensive items such as cars or boats. Other excise taxes are "sin" taxes on items considered unhealthy, such as alcohol and tobacco products. Taxing them raises revenue and discourages consumption. Some revenues from the excise taxes on gasoline are earmarked for upkeep of highways; the tax is thus a sort of "user's tax," levied particularly on those who use the roads.

Ask students whether your state has an income tax.

About two-thirds of the states have some kind of income tax in place. Many are proportional or "flat" in that they levy the same tax rate on all taxpayers, regardless of income. You will have to provide details of your own state's system.

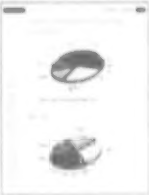
Whether or not your state (or county or city) has an income tax, explain to students that there are different ways of taxing earnings, and that both individuals and businesses can be taxed.

Personal income taxes are levied on the earnings and income of individuals. Corporate income taxes are levied on the profits and earnings of businesses. States may deliberately keep the business tax rate low, or offer special exemptions, to attract business.

Elicit from students what they know about property taxes. They might discuss how property taxes are assessed, whether they are fair, and what property tax revenues fund.

Property provides the traditional state and local tax base. Property taxes date from a time when the country was largely agricultural and land was the most significant form of wealth. Local taxing units (counties or townships) usually establish a "property tax rate"—a percentage of the "assessed value" of the property. Tax assessors visit the properties to estimate (assess) their value. Usually assessed value is well below market value. Nonprofit and public institutions and buildings are not taxed. A city with many churches and schools and few businesses and factories may have a small tax base. Property taxes provide most of the revenue that cities and counties need to fund schools, fire departments, police protection, sanitation, and public welfare services. Many people feel that the property tax is not fair for today's urban society and that property tax funding contributes to great inequities in the services offered in different places.

In addition to land and structures built on land, property taxes may be levied on business inventories, livestock, boats, automobiles, or other assets, such as stocks and bonds ("intangibles").



Distribute Student Handout 4.2, "State and Local Revenues and Spending, 1991."

Have the students study the pie charts for a moment.

Have the students use the information in the "Where it came from" pie chart to rank sources of state and local revenues from largest to smallest. They could perform this activity as a class, in which case you would write their responses on the board, or individually with each student writing answers on a sheet of paper.

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State and Local Revenues Ranked
(percent of revenue dollar)

1. Sales taxes	17.2
2. All other	16.9
3. Excise taxes	16.0
4. Property taxes	15.5
5. Federal Government	14.3
6. Individual income tax	10.1
7. Motor fuels	7.0
8. Cigarettes	2.0
9. Alcohol	1.0

Have the students look at the "Where it went" pie chart and perform the same ranking exercise on state and local spending.

State and Local Spending Ranked
(percent of dollar)

1. Education	29.1
2. All other programs	21.3
3. Health and welfare	19.9
4. Civilian safety	7.5
5. Transportation	7.1
6. Environment	5.6
7. Interest on debt	4.9
8. Administration	4.6

Have the students compare the two ranking lists.

Permit a few minutes of free discussion about the relation between sources of revenue and spending allocation. (If discussion of taxes and spending generates debate about issues of fairness, students may want to see the video program "Taxes…What Is Fair?" that accompanies Lesson 8 in Understanding Taxes.)

Ask, "Do you see any correlation between sources of revenues and spending?" "Transportation," at 7.1% of the spending, is nearly paid for by the 7% of revenues raised by the motor fuel tax. However, property taxes and individual income taxes, even when they are added together, do not bring in enough revenue to fund education completely.

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Concluding the Lesson

Discussion: Direct and Indirect Taxes

Refer to the student handout and review the characteristics of the three principal types of state and local taxes: transaction, income, and property.

Point out that transaction taxes are usually indirect.

Buyers pay them to sellers who then send the tax revenue to the taxing unit.

Income and property taxes are more likely to be direct taxes:

Individuals pay them directly to the taxing unit. (Lesson 10, "Taxes…Can They Be Shifted?" and its accompanying video will discuss direct and indirect taxes in more detail.)

Have the students discuss whether this common perception is reasonable.

Tell the students that sales taxes, being indirect, are sometimes considered more acceptable to taxpayers than income and property taxes, which they must pay directly.

Make sure that any students who were absent are given a copy of Student Handout 4.1. It summarizes the key terms and concepts taught in this lesson.

Extending the Lesson

(homework, research project, or class visitor)

1. Assign students in pairs or teams to interview various local officials (mayor's office, school superintendent or treasurer, public works official, parks department or library manager, etc.) about the way the local tax base affects their revenues. Others could interview the local assessor. Students could then prepare an oral or written report about what they have learned. Invite any of these officials to give a presentation to the class.

2. Contact your state income tax bureau and arrange for a representative to speak to your class. Have your students prepare questions in advance concerning your state's definitions of taxable income, allowances, deductions, and exemptions that are available to taxpayers.

3. If there is a lottery in your state, have student teams research the amount of revenue it raises and how it is spent. They should try to decide whether their evidence suggests that the lottery keeps taxes lower or increases services.

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UNDERSTANDING
How Taxes Evolve

Lessons:

- **Evolution of Our Federal Tax System (Video B)**
- **Making Federal Tax Laws (Video C)**

GLOSSARY OF KEY TERMS

Excise Taxes
Taxes on the sale or use of specific products or transactions.

Payroll Taxes
Taxes collected from employers and employees to finance specific programs, levied on wages, salaries, and self-employment earnings.

Personal Income Tax
A tax based on the amount of taxable income that people receive annually. Taxable income is less than total income because of exemptions and deductions.

Progressive Tax
A tax that takes a larger percentage of income from high-income groups than from low-income groups.

Regressive Tax
A tax that takes a larger percentage of income from low-income groups than from high-income groups.

Tariff (Duties)
Taxes on products imported from foreign countries.

Voluntary Compliance
A system of taxation that relies on individual citizens to report their income freely and voluntarily, calculate their tax liability correctly, and file a tax return on time.

Withholding ("Pay-As-You-Earn" Taxation)
Money that employers withhold from employees' paychecks. This money is deposited for the government. It will be credited against the employees' tax liability when they file their returns. Employers withhold money for federal income taxes, federal social security taxes, and state and local income taxes in some states and localities.

PAYROLL TAXES

Here are some examples of paycheck stubs that show how different taxes are withheld.

Example 1

EARNINGS	HOURS	AMOUNT	DEDUCTION	CURRENT	YEAR TO DATE
Regular	**70.00**	**846.16**	**FICA Tax**	**69.06**	**494.17**
Overtime	**14.75**	**267.57**	**Medicare Tax**	**16.15**	**115.58**
Total	**84.75**	**1,113.73**	**Federal Tax**	**116.17**	**880.89**
			NY State Tax	**52.40**	**347.68**
			NY City Tax	**27.05**	**183.34**
			Disability	**1.20**	**9.60**
			LTD	**1.00**	
Year to Date Gross		**$7,970.53**	**Total**	**$283.03**	
			Net Pay	**$830.70**	

Example 2

EARNINGS	HOURS	AMOUNT	YTD	DEDUCTION	AMOUNT	YTD
Regular	40.00	554.00	7,645.20	Federal W/H	72.95	1,054.81
Overtime	6.00	124.65	415.50	FICA	42.08	545.80
Holiday	.00	.00	271.60	MEDICARE	9.84	127.65
Sick Pay	.00	.00	110.80	E. I. C.	.00	3.05
Bonus	.00	.00	249.32	WI State W/H	42.34	505.83
Vacation Pay	.00	.00	110.80	Health Insurance	60.00	480.00
				Credit Union	100.00	1,500.00
GROSS EARNINGS:		**678.65**	**8,803.22**	**TOTAL DEDUCT:**	**327.21**	**4,211.04**
NET EARNINGS:		**351.44**		**ALLOCATED TIP:**	**.00**	**128.53**

Example 3

EARNINGS	HRS/UNIT	CURRENT AMOUNT	YEAR TO DATE	DEDUCTIONS	CURRENT AMOUNT	YEAR TO DATE
SALARY	75.00	1007.31	23,961.12	FICA	62.45	1576.94
OVERTIME 1		0.00	0.00	FEDERAL WH	154.16	3823.59
OVERTIME 2		0.00	0.00	INDIANA	34.25	864.89
MISC. #3		0.00	1475.00	MONROE CO	10.07	242.35
				MEDICARE	14.61	368.83

26,190.00	1007.31	275.54	731.77	25,436.12	6,876.60	18,559.52
PAY RATE	CURRENT EARNINGS	CURRENT DEDUCTIONS	NET PAY	YTD EARNINGS	YTD DEDUCTIONS	YTD NET PAY

IDENTIFYING TAX POLICY CONCERNS

R = Raising revenue.
B = Influencing behavior.
F = Maintaining fairness.

Below are several imaginary comments on tax policy that Americans might have made at different times in history. In the blank before each comment, use an **R**, a **B**, or an **F** to identify which of the following appears to be the primary concern of the speaker. In some cases, the speaker may be concerned about more than one thing.

_____ **1.** Tax advisor to President Washington: "One way to meet our pressing bills is to tax whiskey. We must repay our war debt to show the world that our government can survive."

_____ **2.** A Pennsylvania farmer in 1794: "Making corn whiskey is the only way we have to market our crop. A whiskey tax is unfair to corn farmers; we'll fight to protect ourselves from this tax."

_____ **3.** A Congressman in 1822: "We should put a high tax on imported rum to discourage its consumption. Drunkenness threatens our social order."

_____ **4.** A Senator during the Civil War: "Our national debt is now increasing at the rate of $2 million per day. Only an income tax will give us the revenue we need."

_____ **5.** An advocate of tax reform in the 1890s: "Excise taxes and import duties fall heaviest on the poor. They spend a larger part of their income on taxed items than do the rich. We need an income tax that will tax the rich and leave the poor alone."

_____ **6.** A farmer in 1910: "If we don't pass a federal income tax, they might put a property tax on my farm land. You have to pay a property tax even if times are bad, and you don't earn any income."

_____ **7.** A newspaper editor from Missouri in 1935: "We must support President Roosevelt in his effort to pass the Social Security Act. Many of our people have suffered greatly during the Depression. Government intervention will provide the help they need if we can get the revenue to do it."

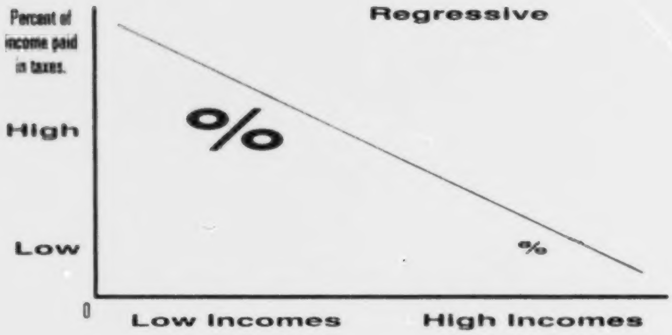
_____ **8.** The mother of two soldiers in 1943: "I don't mind paying my share of income tax. After all, it's my sons fighting over there."

_____ **9.** A newly-married couple from California in 1978: "Even though our parents think we shouldn't do it, we're going to buy a home. The tax breaks are too good to pass up."

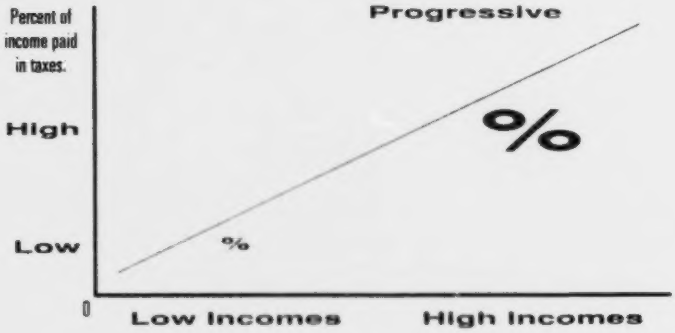
_____ **10.** A tax advisor to President Reagan: "If we eliminate some deductions and tax credits, we can lower tax rates and still collect the same amount of revenue. Plugging tax loopholes will eliminate many tax inequities."

REGRESSIVE AND PROGRESSIVE TAXES

Regressive taxes take a larger percentage of low incomes than of high incomes.



Progressive taxes take a larger percentage of high incomes than of low incomes.



QUESTIONS FOR THOUGHT, DISCUSSION, AND DEBATE

Questions for Discussion and Debate

1. Is the progressive income tax fair?
2. Do taxes designed to influence behavior really work?

Questions for Research

1. Before the Revolution, American colonists claimed that "taxation without representation is tyranny." How did the Constitution provide for taxation with representation?
2. Why was the Whiskey Tax passed in the early 1780s? Who opposed it, and why? What was the significance of the Government's actions in 1794?
3. Why was it necessary to amend the C[illegible]itution in order to have an income tax?
4. Tariffs were a major source of revenue for the Federal Government from its founding until the Second World War. What is the difference between revenue tariffs and protective tariffs? Research at least three of the following historical events involving tariffs, explaining whether they were for revenue or protection, and what groups supported and opposed them, and why:

   the Tariff of 1816
   the 'Abomination Tariff' of 1828 and the nullification controversy
   the election of 1888; the Underwood-Simmons Bill of 1913
   the Hawley-Smoot Tariff Act of 1930
   the Trade Expansion Act of 1962, the General Agreement
   on Tariffs and Trade, and the North American Free Trade Agreement.
5. What effect did the Social Security Act of 1935 have on federal revenue needs and tax policies? Why is it funded by a compulsory tax? What philosophy did the Act reflect about Government's responsibilities to its citizens? Did this philosophy represent new thinking?

TAX RATES AND DEMOGRAPHICS

Table 1: 1992 Progressive Tax Rates

Taxable Income*	1992 Tax Rate for a Single Person
0-$21,450	15% of amount over $0
$21,450-51,900	28% of amount over $21, 450 + $3,217.50 [.15 x $21,450]
$51,900 and over	31% of amount over $51,900 + $11,743 [(.15 x $21,450) + (.28 x ($51,900-21,400))]

(Taxpayers in the middle bracket pay 15% tax on the first $21,450 of their income and 28% on income over $21,450. Similarly, taxpayers in the top bracket pay 15% on the first $21,450 that they earned, 28% on $30,450 ($51,900 minus $21,450), and 31% only on income over $51,900.)

*Appropriate deductions and exemptions have already been used in determining taxable income.

Table 2: Median income and taxes of each population fifth

	LOWEST	SECOND	THIRD	FOURTH	FIFTH
MEDIAN INCOME	$8,423	$22,945	$35,542	$51,765	$81,924
Progressive tax per family	$	$	$	$	$
Total progressive tax paid by fifth	$	$	$	$	$
Flat tax per family	$	$	$	$	$
Total flat tax paid by fifth	$	$	$	$	$

Government revenues from progressive tax: $ _______

Government revenues from flat tax: $ _______

Use Table 1 to compute

1. the taxes owed by a single person with $12,000 in taxable income.

2. the taxes owed by a single person with $42,300 in taxable income.

3. the taxes owed by a single person with $64,000 in taxable income.

Use Table 2 to calculate your answers, and fill in the missing information in the table.

4. Assume a population of 100 taxpaying families distributed as described in Table 2. Assume also that the progressive tax rate for families is the same as that for single individuals. How much would a government raise if each of the 100 families had taxable income of exactly the median for their income group and paid the percentage of income tax for their income bracket?

5. How much would a family in each fifth of income distribution pay if there were a "flat" income tax of 20%?

6. How much more or less would a family with taxable income at the median of the lowest fifth of income distribution pay at this flat rate than with the progressive rate?

7. How much more or less would a family with taxable income at the median of the highest fifth of income pay with this flat tax compared with the progressive tax?

8. How much would the government raise if all 100 families paid a flat tax of 20%? Is this more or less than would be raised with a progressive tax (as in question 4)?

TAX TERM WORD SEARCH

How many hidden taxes can you find?

In the grid below, find and circle words with the following meanings:

1. Taxes on the sale or use of specific products or transactions.

2. Taxes on products imported from foreign countries.

3. A tax based on the amount of taxable income that people receive annually.

4. A tax that takes a larger percentage of income from high-income groups than from low-income groups.

5. A tax that takes a larger percentage of income from low-income groups than high-income groups.

6. A tax that employers withhold from employees' paychecks.

P	A	Y	R	O	L	L	O	W	L	T
T	R	O	A	N	T	A	R	I	F	F
H	E	O	N	A	L	L	O	T	P	Y
U	G	A	G	T	E	E	S	H	U	Z
G	R	C	R	R	M	P	S	H	L	D
H	E	H	I	O	E	A	L	O	B	U
O	S	E	C	F	X	S	Y	L	R	L
W	S	N	H	E	C	L	S	D	O	E
A	I	T	L	D	I	R	S	I	T	Q
B	V	O	I	X	S	E	L	N	V	C
U	E	P	T	Y	E	K	W	G	F	E

LESSON SUMMARY

EVOLUTION OF OUR FEDERAL TAX SYSTEM

PURPOSE

To help students understand the constitutional basis of our federal tax system and how it has evolved in response to three major themes in U.S. tax history.

OBJECTIVES

After watching the video program and participating in the suggested activities, students will be able to:

- describe the basis of federal taxation in the Constitution and subsequent legislation
- explain the primary reasons for the evolution of the national tax system:
  - the need to raise revenue
  - the desire to be fair to different income groups
  - the desire to influence people's behavior toward socially desirable ends
- explain the significance of key developments in the evolution of the federal tax system:
  - the enforcement of early excise taxes and tariffs on various commodities
  - the 16th Amendment to the Constitution
  - the Social Security Act (1935) and the need to finance social programs
  - the adoption of income tax withholding during World War II

Evolution of Tax Systems Timeline
(key terms to learn are boldfaced)

The Articles of Confederation (1780s)

- Voluntary donations from the states to finance the Federal Government.

The Constitution (1789)

- Congress has power to levy taxes
- Taxes designed to raise money for an army and government services
- Earliest taxes were duties (tariffs) on imports and excise taxes on distilled spirits, tobacco, and other commodities

Whiskey Rebellion (1794)

- Whiskey taxed to raise money and discourage consumption
- Revolt by farmers supplying the corn for making whiskey
- President Washington sent troops, showing the new government's determination to enforce its power to collect taxes

LESSON SUMMARY (CONTINUED)

EVOLUTION OF OUR FEDERAL TAX SYSTEM

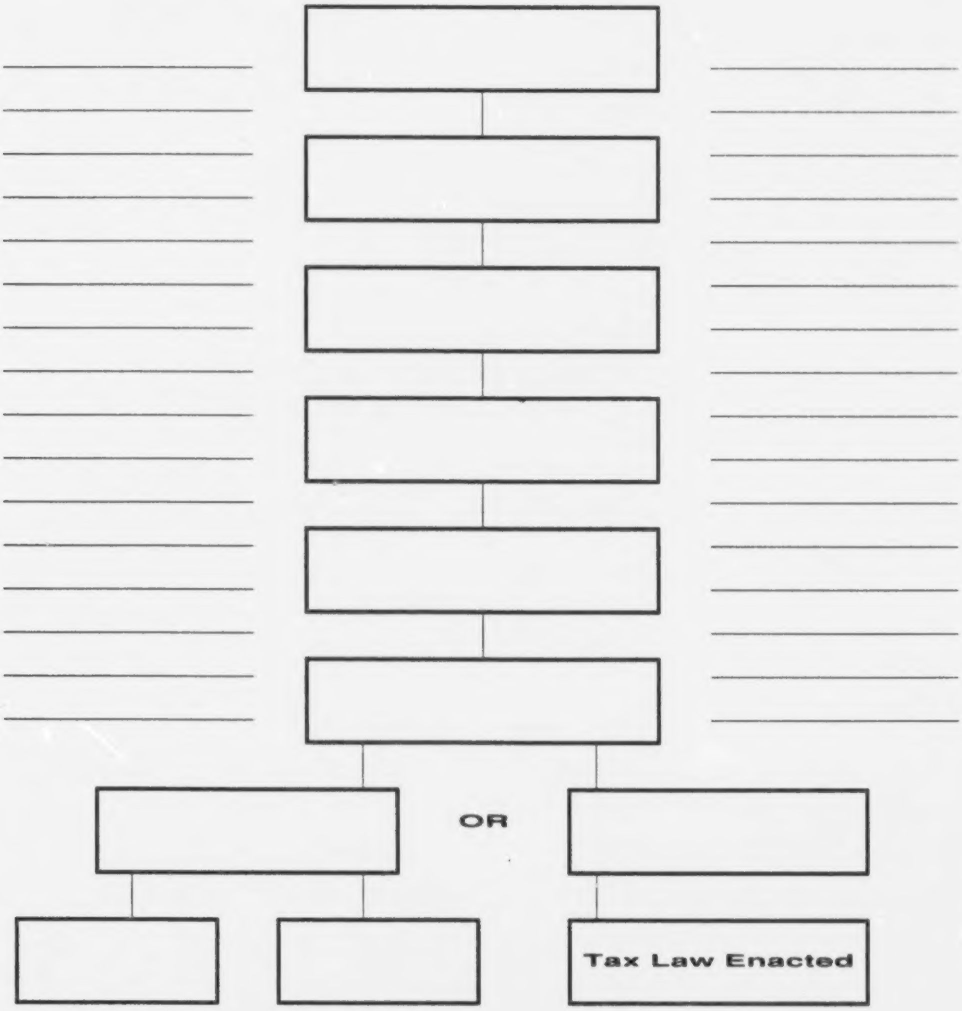
War of 1812	New excise taxes were passed to finance war effort
Civil War (1861-65)	Congress passes the first personal income tax
	Tax repealed in 1872
1895	Attempt to pass an income tax
	Income tax declared unconstitutional in 1895
The 16th Amendment (1913)	Makes the income tax legal
	Income tax now seen as progressive, taking differences in people's income into account
	Tariffs and excise taxes regarded as regressive and unfair, placing the heaviest burden on those with low incomes
1914-1945	Income tax increased during World War I
	Tax cut during the '20s
	Tax increased during the Great Depression and World War II
1945-present	Tax system based on voluntary compliance
	Tax system expanded, more complex with the addition of withholding, exemptions, deductions, and credits
	Increasing use of taxes to influence behavior
	Major revision (1986) to lower tax rates and broaden the tax base

HOW TAX LAWS ARE PASSED

1. In each empty box, working from top to bottom, write one of the listed phrases to create a flow chart showing the steps—in correct order—for enacting federal taxes.

2. Next to the boxes, write phrases showing what citizens can do to affect the legislative process, and draw a line to the appropriate box. (For example, write "letters to local representative," circle the phrase, and draw a line to the box you have labeled "House approval.")

Tax Law Enacted
Senate and House vote to pass compromise bill
Senate Finance Committee votes to pass bill
Veto override passes
Full House votes to pass
Full Senate votes to pass
President signs bill
President vetoes bill
House Ways and Means Committee votes to pass
Veto override fails (no legislation)
Veto override passes
Joint Committee approves compromise legislation



Case Study:

THE DUCK STAMP

Read the following case study and decide whether you agree or disagree with the statements at the bottom of the page. Be prepared to defend your position. If you feel the Duck Stamp law should be repealed, what steps would you take to bring about this change?

In the late 1920s and early 1930s, the population of migrating waterfowl was decreasing, and there was widespread loss of wetlands in the United States. (Wetlands are marshes and swamps that are natural habitats for many species of wildlife.) Migrating waterfowl were being overhunted and the wetlands that the birds used along their migration routes had dried up, particularly in the Dust Bowl prairie states.

A special interest group of sportsmen and conservationists began to lobby in Washington for a federal program to protect migratory waterfowl and wetlands. They were successful. In 1934 a federal act was passed that authorized what is now the Federal Migratory Waterfowl Stamp, or what many call the "Duck Stamp."

The Duck Stamp is a direct tax (a fee) that applies only to hunters. Anyone in the United States who wants to hunt waterfowl must purchase a federal Duck Stamp in addition to a hunting license. (In 1992, a federal Duck Stamp cost $15.00, down from $20.00 in 1987.) The money that the government collects from the sale of these stamps goes directly to the U.S. Fish and Wildlife Service. It is used for the purchase, development, and maintenance of the nation's wetlands.

Even though the Dust Bowl days are over, loss of wetlands is still a major problem. In the United States, Canada, and Mexico 450,000 to 500,000 acres of wetlands are being lost each year. As population increases, pressure to develop these wetlands for private and commercial purposes has grown. To protect their resources, many individual states have instituted their own Duck Stamp programs in addition to the federal program. Just as with the federal stamp, any hunters who want to hunt waterfowl must purchase a stamp. States use the money in the same way as the federal government does—to protect their wetlands and the wildlife that lives in them.

Do you agree or disagree with the following statements?

- Since everyone benefits from saving wetlands, everyone (not just hunters) should pay for it. General tax revenues (or new taxes) should be used to purchase and maintain wetlands, and the Duck Stamp taxes should be repealed.
- If you believe that the Duck Stamp tax should be repealed, what steps should you take to bring about the change?

LESSON SUMMARY

MAKING FEDERAL TAX LAWS

PURPOSE

To help students understand that the legislative process to enact federal income tax laws involves formal procedures based on the Constitution and informal procedures that blend and balance various interests.

OBJECTIVES

After viewing the video program and participating in the suggested activities, students will be able to:

- describe the process of tax legislation
- identify how citizens are empowered to affect tax legislation
- explain how tax policy emerges from compromise among various constituencies

SUMMARY

The U.S. Constitution describes a formal tax legislation process. A proposed tax law, called a bill, is

1. Initiated in the House of Representatives and referred to the Ways and Means Committee. When the members of this committee reach agreement about the legislation—often after holding hearings—and write a proposed law,

2. The bill goes to the full House, where it is debated, possibly amended, and eventually approved.

3. Then the bill goes to the Senate, where it is reviewed and often rewritten by the Finance Committee, often after further hearings.

4. This committee's version is then presented to the full Senate. When it is approved,

5. The House and Senate versions of the bill must be reconciled. A "joint committee" tries to arrive at a compromise version.

6. Which is then sent back to both the House and the Senate for approval.

7. After Congress passes the bill, it goes to the president, who can either sign it, so it becomes law, or veto it.

8. If the president vetoes the bill, Congress may try to override the veto with a two-thirds vote of each house. If the legislators succeed, the bill becomes law without the president's signature.

There is also an informal tax legislation process. This process is the means by which all citizens, acting individually or as representatives of their businesses or action groups to which they belong, try to affect the legislation by making their views known to legislators. They can do this through:

- **direct contact with members of Congress (letters, phone calls, FAXes),**
- **attending town meetings and other appearances by legislators,**
- **joining and supporting pressure groups,**
- **circulating and signing petitions,**
- **voting for candidates sympathetic to their views.**

LESSON 5
EVOLUTION OF OUR FEDERAL TAX SYSTEM

PURPOSE

To help students understand the constitutional basis of our federal tax system and how it has evolved in response to three major themes in U.S. tax history.

OBJECTIVES

After viewing the video program and participating in the suggested activities, students will be able to:

- describe the basis of federal taxation in the Constitution and subsequent legislation
- explain the primary reasons for the evolution of the national tax system:
  —the need to raise revenue
  —the desire to be fair to different income groups
  —the desire to influence people's behavior toward socially desirable ends
- explain the significance of key developments in the evolution of the federal tax system:
  —the enforcement of early excise taxes and tariffs on various commodities
  —the 16th Amendment to the Constitution
  —the Social Security Act (1935) and the need to finance social programs
  —the adoption of income tax withholding during World War II

MATERIALS

- Video Program B, "Evolution of Our Federal Tax System"
- Student Handout 5.1, "Glossary of Key Terms"
- Student Handout 5.2, "Payroll Taxes" (also used in Lesson 1)
- Student Handout 5.3, "Identifying Tax Policy Concerns"
- Student Handout 5.4, "Regressive and Progressive Taxes"
- Student Handout 5.5, "Questions for Thought, Discussion, and Debate"
- Student Handout 5.6, "Tax Rates and Demographics"
- Student Handout 5.7, "Tax Term Word Search"
- Student Handout 5.8, "Lesson Summary"

KEY TERMS

Excise Taxes
Taxes on the sale or use of specific products or transactions.

Payroll Taxes
Taxes collected from employers and employees to finance specific programs; levied on wages, salaries, and self-employment earnings.

Personal Income Tax
A tax based on the amount of taxable income that people receive annually. Taxable income is less than total income because of exemptions and deductions.

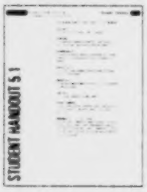
Progressive Tax
A tax that takes a larger percentage of income from high-income groups than from low-income groups.

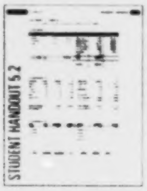
Regressive Tax
A tax that takes a larger percentage of income from low-income groups than from high-income groups.

Tariff (Duties; Customs Duties or Import Duties)
Taxes on products imported from foreign countries.

Voluntary Compliance
A system of taxation that relies on individual citizens to report their income freely and voluntarily, calculate their tax liability correctly, and file a tax return on time.

Withholding ("Pay-As-You-Earn" Taxation)
Money that employers withhold from employees' paychecks. This money is deposited for the government. It will be credited against the employees' tax liability when they file their returns. Employers withhold money for federal income taxes, federal social security taxes, and state and local income taxes in some states and localities.





Opening the Lesson

Distribute Student Handouts 5.1, "Glossary of Key Terms" and 5.2, "Payroll Taxes."

Encourage students who have jobs to share examples from their own paycheck stubs.

Encourage general discussion.

Discuss the examples given on handout 5.2, asking students to identify gross earnings and amounts withheld for various taxes and other reasons.
Briefly explain—or ask students to explain—the different sums withheld: federal income tax, Social Security (FICA) tax, state tax, and local tax, if applicable.

Ask why this money is withheld from the paycheck.
Students should know that the withheld money goes for taxes.

You may wish to call students' attention to the definition of withholding in the glossary. Ask whether any student knows the legal basis for withholding this money, and what events in U.S. history may have led to this kind of taxation.
At this point, accept all answers and guesses.

Ask whether any students can suggest other kinds of taxes that are not reflected on the paycheck. If necessary, prompt them to consider sales taxes; special taxes on gasoline, cigarettes, and certain other items; on telephone service; and automobile registration. Ask what these different taxes are for and what their effect is.
Students should volunteer that the taxes are ways for the government to raise money to provide services (roads, air traffic controllers, etc.). They may also suggest that high taxes on cigarettes or alcohol may discourage consumption.

Prepare students for viewing the video program by stating that it will describe the legal basis for federal taxation; three major purposes of the tax system; and several key developments in the evolution of the tax system.

Suggest that the students look for answers to the following questions as they watch the video:

- "what kinds of taxes were imposed during the 18th and 19th centuries?
- "For what purposes was the government raising revenue?"
- "What were some major historical events that led the government to impose new or more taxes?"

Developing the Lesson

Show the video program (15 minutes). Following the program summary is a set of discussion questions. You may want to pause the tape and ask the questions at the points indicated or wait to ask all questions at the conclusion of the video.

Program Summary

High school students Nina, Allie, Kyle, and Travis are assigned a group project: to present a report on the evolution of taxes. Travis appears with a laptop computer containing his contribution, scanned pictures and graphics accompanied by his recorded narrative. With his help, the students create a report that describes the unworkable system of voluntary state donations under the Articles of Confederation in the 1780s and the Constitution's granting of tax levy power to Congress in 1789. The first taxes were designed to raise money for an army and government services, and reflected desires that they be fair. The earliest taxes were duties—tariffs—on imports and excise taxes on distilled spirits, tobacco, and other commodities. A tax on whiskey, designed not only to raise money but also to make it more expensive and discourage consumption, caused a revolt by farmers who raised the corn from which it was made. President Washington sent troops to suppress the rebellion, demonstrating the new government's determination to enforce its power to collect taxes. New excise taxes were passed to finance the War of 1812. To finance the Civil War, Congress passed the first personal income tax, which was very unpopular and was repealed in 1872. Another attempt to pass an income tax was declared unconstitutional in 1895.

The students finish the last part of the report on the evolution of taxes in the 20th century. By 1900, many people thought that tariffs and excise taxes were regressive and unfair, placing the heaviest burden on those with low incomes. The income tax was seen as fairer, as it took differences in people's income into account. The 16th Amendment, making the income tax constitutional, was ratified in 1913. At first only the wealthiest—less than one percent of the population—were taxed. The tax was increased during

World War I, cut during the 1920s, and increased during the Great Depression and World War II. Since then the tax system, based on voluntary compliance, has expanded and become more complex with the addition of withholding, exemptions, deductions, and credits, and with increasing uses to influence behavior. A major revision in 1986 attempted to lower tax rates and broaden the tax base.

To help the students understand the video program, ask them the following questions, either when you pause the video at the points indicated in brackets, or after the students have seen the complete video program:

Pause the tape after the students complete their first session on the computer and stop to order a pizza.

Ask, "What gives our Federal Government the right to levy and collect taxes?
The Constitution—in Article I, Sections 6 through 9, and the 16th Amendment—and subsequent legislation.

Ask, "What kinds of taxes did the Constitution authorize originally?"
Tariffs and excise taxes.

Pause the tape after Travis says he can get newsreel footage off a laserdisc in the school's library.

Ask, "What was the result of the 16th Amendment and what was the impetus or rationale behind it?"
It authorized a progressive income tax. It reflected demands for fairness in taxation by providing a legal basis for a tax based on income—a progressive tax—to supplement or replace existing regressive taxes such as excise taxes and tariffs.

At the end of the program.

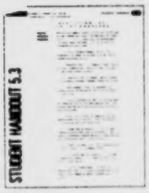
Ask, "According to the video program, what were some historical events that created a need for the Federal Government to raise additional revenue?"
The War of 1812, the Civil War, World War I, the Great Depression, and World War II.

Ask, "At these and at other times, what were the purposes of raising revenue?"
To fund military expenses during wartime; to provide for social welfare programs such as Social Security; and to fund education, transportation, and other services.

Ask, "What impact did the great need for revenue during World War II have on the federal tax system?"
The income tax was greatly expanded, and "pay-as-you-earn" tax withholding was adopted in 1943.

Ask, "What is meant by voluntary compliance?"
Citizens are expected to report their income freely and voluntarily, calculate their tax liability correctly, and file a tax return on time.

Ask, "What is meant by withholding, and what are its advantages?"
Having employers hold back part of employees' tax liability from their paychecks makes it easier for taxpayers to meet their tax obligations.



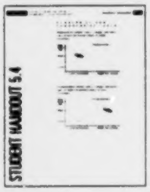
Distribute copies of Student Handout 5.3, "Identifying Tax Policy Concerns." This handout asks students to identify the primary concerns of 10 statements about tax policy.

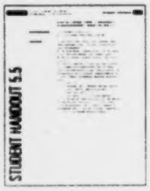
Have students answer the questions individually, in small groups, or as a class activity. In some cases more than one concern may be involved.

Encourage discussion, and try to get agreement on answers.

Suggested handout answers:
R=raising revenue; B=influencing behavior; F=maintaining fairness
1) R 2) F 3) B 4) R 5) F & R
6) F & R 7) F & R 8) R & F 9) B 10) R & F

Developing the Lesson





Distribute copies of Student Handout 5.4, "Regressive and Progressive Taxes," to help students understand the definitions of these key terms.

All students

Divide the class into four groups. Give each group a copy of Student Handout 5.5, "Questions for Thought, Discussion, and Debate," which contains the two questions to be debated in this exercise. Assign two groups to think about question 1, one group preparing "pro" arguments in favor of the statement, the other group preparing "con" arguments against the statement. Assign the two remaining groups to prepare pro and con arguments for the second question. Give each group about 10 minutes to prepare its arguments. Then have the paired groups each debate their assigned questions for five minutes.

(As an alternative, students could be assigned the pro or con position on one or another of the questions and, individually or in groups, asked to prepare arguments as a research project. Such arguments could be presented orally or in writing.)

1. Is the progressive income tax fair?	1. Students arguing that the progressive tax is fair should mention that as incomes increase, less sacrifice of basic necessities is required to pay taxes. Those arguing against the fairness of such taxes may state that it is more just that every person should be taxed at the same rate—the same percentage of their income (a "flat tax") or that taxes should be levied in direct proportion to services received from the government.
2. Do taxes designed to influence behavior really work?	2. Students taking both sides of the question should mention specific examples of the use of taxes to influence behavior, including the so-called "sin taxes" on cigarettes and alcoholic beverages and tax deductions for home ownership and charitable contributions.

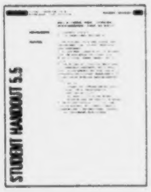
Choose the activity that is appropriate for your class from the two alternatives that follow.

To close the activity, reinforce students' understanding that tax issues are extremely complex, and that consensus about fairness is very difficult to achieve.

Activity for History, Civics, and Government Students

(20 minutes or homework assignment)

Have students, individually or in small groups, use their textbooks and classroom or library resources to research one of the following questions. (The topics are listed on Student Handout 5.5.) Make sure every student understands which topic he or she is to address.



Have them prepare brief reports or presentations, depending on the time available.	Factual answers will depend largely on the texts and resources available to students. At the least, their replies should state…
1. Before the Revolution, American colonists claimed that "taxation without representation is tyranny." How did the Constitution provide for taxation with representation?	1. Taxes were to be levied by the Congress, an elected, representative body.
2. Why was the Whiskey Tax passed in the early 1780s? Who opposed it, and why? What was the significance of the government's actions in 1794?	2. The tax was designed primarily to produce revenue for the young nation to pay its debts and meet its expenses. Frontier farmers, whose income depended on the sale of liquor made from the grain they grew, opposed it. The Government's firm stand demonstrated its strength.
3. Why was it necessary to amend the Constitution in order to have an income tax?	3. The Constitution permitted only taxes apportioned by population. In 1895 the Supreme Court declared the income tax did not meet this test and was therefore unconstitutional. An amendment had to be passed to make such a tax legal.

4. Tariffs were a major source of revenue for the Federal government from its founding until World War II. What is the difference between revenue tariffs and protective tariffs? Research at least three of the following historical events involving tariffs, explaining whether they were for revenue or protection, and what groups supported and opposed them, and why:

- **—the Tariff of 1816**
- **—the 'Abomination Tariff' of 1828 and the nullification controversy**
- **—the election of 1888; the Underwood-Simmons Bill of 1913**
- **—the Hawley-Smoot Tariff Act of 1930**
- **—the Trade Expansion Act of 1962, the General Agreement on Tariffs and Trade, and the North American Free Trade Agreement.**

4. A revenue tariff is designed primarily to raise money; it is usually a small sum imposed on a great variety of imported goods. A protective tariff is designed to raise the price on imported goods that compete with domestic ones and make them less desirable, thus protecting domestic industries. Student descriptions of specific tariffs will reflect their sources.

5. What effect did the Social Security Act of 1935 have on federal revenue needs and tax policies? Why is it funded by a compulsory tax? What philosophy did the Act reflect about Government's responsibilities to its citizens? Did this philosophy represent new thinking?

5. When it took on financial responsibility—for the first time—for the elderly and unemployed, the Government needed to find a way to generate additional revenues efficiently and steadily. A compulsory payroll tax, based on the philosophy that those who have jobs should help the elderly and the unemployed, was thought to be the best way to do this. Later, people with disabilities or other special problems were added to those eligible for social security.

Activity for Economics and Consumer Education Students (20 minutes or homework assignment)

STUDENT HANDOUT 5.6

Distribute Handout 5.6, "Tax Rates and Demographics."

Explain that the three tax brackets illustrate how progressive systems of the federal income tax takes a larger percentage of high incomes than low incomes. (You may want to remind students that "taxable income" is less than total income because of exemptions and deductions.)

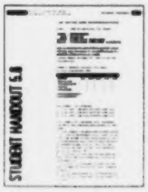
Divide the class into four small groups. All students should have calculators.

Ask the groups to work through the questions on the handout. Students in each group can assign different computations to each member, but they will need to draw on each other's answers to answer all the questions. They will need to do a considerable amount of calculating to answer question 4; make sure they are proceeding correctly and have different students perform the calculations for each income group. They should round off all figures to the nearest dollar.

Question 9 does not require a written answer, but it should be discussed in the groups or in the class as a whole. One copy of the handout should be a master copy on which students enter missing information in the tables and write answers. Reconvene the students after they have worked for 15 minutes, and enter their results on a table copied on the board or on a copy of the handout projected by an overhead projector. If the groups have come up with different results, explore reasons for the differences and try to determine the right method of arriving at the correct results.

1. Use Table 1 to compute the taxes owed by a single person with $12,000 in taxable income.

1. .15 x $12,000 = $1,800



2. Use Table 1 to compute the taxes owed by a single person with $42,300

2. .28($42,300–$21,450) + $3,217 = $9,055

3. Use Table 1 to compute the taxes owed by a single person with $64,000 in taxable income.

3. .31($64,000–$51,900) + .28($51,900-$21,450) + $3217 = $15,494

4. Assume a population of 100 taxpaying families distributed as described in Table 2. Assume also that the progressive tax rate for families is the same as that for single individuals. How much would a government raise if each of the 100 families had taxable income of exactly the median for their income group and paid the percentage of income tax for their income bracket?

4. Make sure that students use the correct tax rate for each group (15% for the lowest group, 28% for the middle three, and 31% for the highest income group), and that they understand that they use the two higher rates only to calculate tax owed on income above a set rate. For example, to figure the tax on the middle income group, they would first calculate 15% tax on income up to $21,450 ($3217). Then they would calculate 28% on income over this amount (.28 x [$35,542 - 21,450] or .28 x $14,092 = $3,945. To find the actual tax owed, they would add these sums together ($3,217 + 3,945 = $7,163).

5. How much would a family in each fifth of income distribution pay if there were a "flat" income tax of 20%?

MEDIAN INCOME	$8,423	$22,945	$35,542	$51,765	$81,924
Progressive tax per family	$1,283	$3,636	$7,163	$11,706	$21,051
Total progressive tax paid by fifth	$25,260	$72,720	$143,260	$234,120	$421,020
Flat tax per family	$1,685	$4,589	$7,108	$10,353	$16,385
Total flat tax paid by fifth	$33,700	$91,780	$142,160	$207,060	$327,700

Government revenues from progressive tax: $896,380
Government revenues from flat tax: $802,400

6. How much more or less would a family with taxable income at the median of the lowest fifth of income distribution pay at this flat rate than with the progressive rate?

6. Such a family would pay $422.00 more with the flat tax than with a progressive tax. (The flat tax is 5% higher than the progressive tax rate for their income bracket.)

7. How much more or less would a family with taxable income at the median of the highest fifth of income pay with this flat tax compared with the progressive tax?

7. The highest income families would pay $4,666 less with a flat tax than with a progressive tax. The flat tax rate is 11% lower than their progressive tax rate.

8. How much would the government raise if all 100 families paid a flat tax of 20%? Is this more or less than would be raised with progressive tax (as in question 4)?

8. Government revenues from flat tax: $802,400. This is $93,980 less than the revenue from the progressive tax.

9. How do you account for this difference?

9. The income distribution table shows that more than two-thirds of the taxpayers pay the two higher tax rates on some part of their incomes. These higher rates yield more than the flat 20% rate of the flat tax.

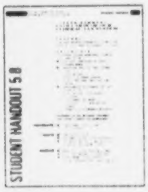
Concluding the Lesson

All students

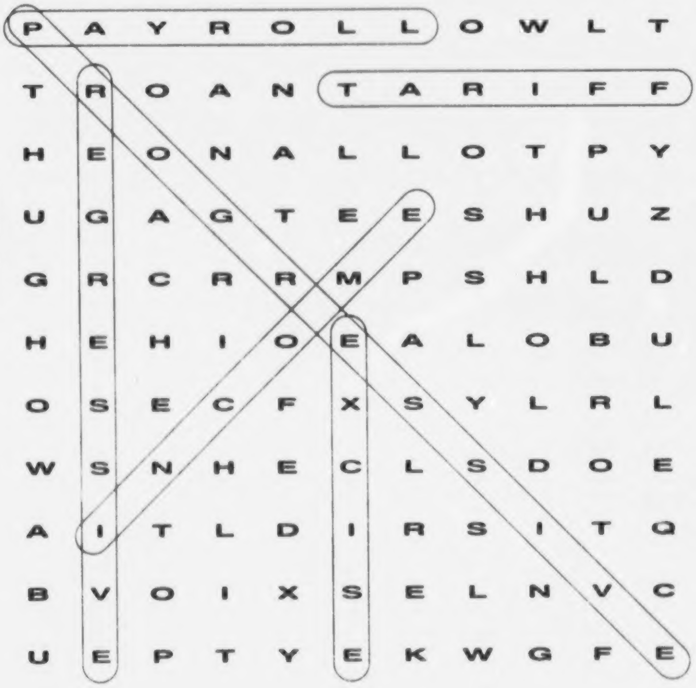
Distribute Student Handout 5.7, "Tax Term Word Search."

STUDENT HANDOUT 5.7

Distribute copies of Student Handout 5.8, "Lesson Summary," for student review and information. Make this handout—as well as any others you may have used—available to students who were absent for this lesson.



Have students—in pairs or individually—find the listed terms in the puzzle.



P	A	Y	R	O	L	L	O	W	L	T
T	R	O	A	N	T	A	R	I	F	F
H	E	O	N	A	L	L	O	T	P	Y
U	G	A	G	T	E	E	S	H	U	Z
G	R	C	R	R	M	P	S	H	L	D
H	E	H	I	O	E	A	L	O	B	U
O	S	E	C	F	X	S	Y	L	R	L
W	S	N	H	E	C	L	S	D	O	E
A	I	T	L	D	I	R	S	I	T	Q
B	V	O	I	X	S	E	L	N	V	C
U	E	P	T	Y	E	K	W	G	F	E

Extending the Lesson

Homework or further independent research

1. Have students study historical examples of how government social programs relate to tax policy. For example, students might compare and contrast the numerous social programs and related tax policies of President Roosevelt's "New Deal" and President Johnson's "Great Society." Or, students might compare and contrast the policies of "economy in government and tax cuts" of the Coolidge and Reagan administrations.
2. Students might look in contemporary newspapers and journals to learn about the Tax Reform Act of 1986. How much were tax rates lowered? What deductions and tax credits were eliminated? What deductions and tax credits were retained? Do students think this tax reform made our income tax fairer? Why?
3. Additional lessons that can be used to develop some of the main points in this lesson in greater depth are Lesson 7, "Taxes Affect Different Income Groups"; Lesson 8, "Taxes...What Is Fair?"; and Lesson 9, "Taxes Raise Revenue." These lessons all have an accompanying video program. Lesson 11, "Taxes Influence Behavior"; and Lesson 12, "Taxes Involve Conflicting Goals," although they do not include a video component, are also useful. You may wish to look at the lesson plans and suggested materials that accompany these lessons at this time.

LESSON 6
MAKING FEDERAL TAX LAWS

PURPOSE

To help students understand that the legislative process to enact federal income tax laws involves formal procedures based on the Constitution and informal procedures that blend and balance various interests.

OBJECTIVES

After viewing the video program and participating in the suggested activities, students will be able to:

- describe the process of tax legislation
- identify how citizens are empowered to affect tax legislation
- explain how tax policy emerges from compromise among various constituencies

MATERIALS

- Video Program C, "Making Federal Tax Laws"
- Student Handout 6.1, "How Tax Laws Are Passed"
- Student Handout 6.2, "Case Study: The Duck Stamp"
- Student Handout 6.3, "Lesson Summary"

KEY TERMS

Formal Tax Legislation Process
The strict constitutional steps (involving Congress and the president) that a proposed tax must pass through before it becomes law.

Informal Tax Legislation Process
Individuals and interest groups expressing and promoting their opinions about tax legislation.

Tax Credits
Taxpayer expenditures on specific items, of which a portion can be subtracted directly from their tax liability, reducing the tax liability by the full amount of the credit.

Opening the Lesson

Write the key terms on the board.

Ask the students to describe the "formal tax legislation process" for federal tax laws by drawing on what they have learned in American history and civics courses.
Elicit that tax law is initiated in the House of Representatives.

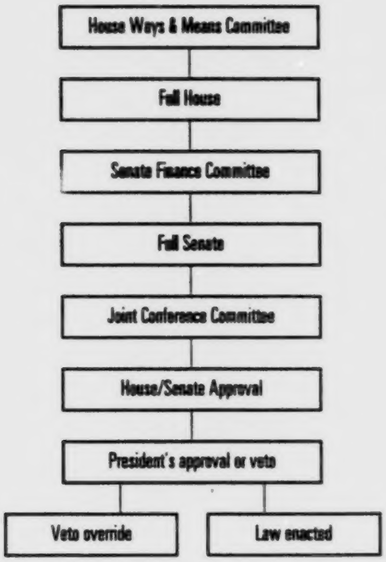
Students may need to be informed that tax bills in the House originate with the Ways and Means Committee.

Ask whether any students can name the chair of the House Ways and Means Committee, or whether any of your state's representatives sit on it.
In the 103rd Congress (1993-94), the Chair of the House Ways and Means Committee is Rep. Dan Rostenkowski (D-Ill.). Chair of the Senate Finance Committee is Sen. Daniel Moynihan (D-NY).

Emphasize that at each stage of the process, citizens and taxpayers have the right to voice their opinions.

Continue to describe the process of enactment of tax legislation, drawing a sketchy flowchart on the board if you like. Elicit as much of the information from the students as you can.

A flowchart would look as follows:


House Ways & Means Committee
Full House
Senate Finance Committee
Full Senate
Joint Conference Committee
House/Senate Approval
President's approval or veto
Veto override
Law enacted

Ask when, and with whom, the opinions of individual taxpayers might have the greatest effect.

The best time to try to affect legislation is early in the process. The Ways and Means Committee might have hearings before initiating legislation, or individual representatives might hold hearings in their districts before voting on legislation. Representatives, who represent local districts, might be more responsive than senators or the President who have to respond to a much broader range of conflicting views. However, citizens can continue to voice their opinions throughout the process.

Announce that the students are about to see a video program about the role of citizens and taxpayers in the enactment of tax legislation.

Developing the Lesson

Show video program C, "Making Federal Tax Laws" (15 minutes).

Following the program summary is a set of discussion questions. You may want to pause the tape and ask the questions at the points indicated or wait and ask all questions at the conclusion of the video.

Program Summary

Emma, a 16-year-old high school student, has joined an environmental group and started working after school at her uncle's drycleaning business. She learns that a proposed tax on businesses that pollute, which her environmental group supports because it might discourage businesses from using pollutants, could be very burdensome for her uncle's business, because drycleaners use a lot of chemicals. A customer, owner of a nearby business, urges Emma's uncle to attend an upcoming meeting to protest the environmental tax. Uncle Cyrus doesn't think that politicians will listen to small businessmen.

At a meeting of the environmental group, Franklin, a college student, shows a video about the process for adoption of federal tax laws from their origin in the House Ways and Means Committee through approval by the House, passage to the Senate Finance Committee, approval by the full Senate, reconciliation of the two versions by a joint conference committee, approval of a compromise version by House and Senate, signing or veto by the president, and possible veto override by House and Senate. They discuss what citizens and groups can do to make their views heard. Franklin urges everyone to attend the town meeting when the local congressman will be present.

In talking with her uncle and later with her father, a teacher, Emma learns that an alternative to taxing businesses that pollute would be to offer a tax credit to those businesses that invest in equipment that reduces pollution. Such a tax law would help, rather than hurt, her uncle's drycleaning business and provide an incentive for reducing pollution.

At the meeting, the congressman says that it is important for citizens to attend such meetings, write or telephone their representatives, or form interest groups to make their views heard. As the meeting turns to the proposed tax law, Emma's uncle enters and asks whether tax credits for businesses that reduce pollution can be considered. The congressman agrees that the proposal is interesting and that he'd like to hear more about it. Emma's uncle is pleased that he's been heard, and decides that he might be able to work with the environmental group.

To help the students understand the content of the video, pause the tape at the points indicated in brackets to ask the following questions, or use all the questions as a basis for discussion at the completion of the entire tape:

At the conclusion of the scene showing Emma's first day of work at the drycleaner's.

Ask, "What conflict exists between the views of the environmentalists and those of owners of small businesses?"

The environmentalists want a tax to penalize businesses that pollute the local water and air. Small businesses may be hurt by such a tax.

After Franklin shows the environmental group a video explaining the process of passing tax laws.

Ask, "What does Franklin mean when he says that 'tax policy is usually a compromise'? Where does compromise play a role in the process of passing a tax law?"

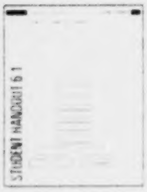
Franklin points out that lawmakers hear many different points of view when they propose and vote on laws. Often the legislation, as it is written by the House Ways and Means Committee, reflects a compromise among these views. However, further compromises may occur in the process of passing tax legislation. If the Senate version of a tax bill differs from the House version, a joint committee tries to write a bill that is a compromise between them.

At the conclusion of the video.

Ask, "Why do you think the congressman might take seriously the idea of offering a tax credit for business investments for pollution control?"

The idea is an effective compromise between the environmentalists, who want a decrease in air and water pollution, and businesses, which can't afford higher taxes but might be able to make improvements if they are offered an incentive. By pushing for such a tax credit, the congressman can please two important constituencies. (He will have to be able to defend the idea against colleagues who argue that the country can't afford to offer credits that reduce tax revenues.)

Distribute copies of Student Handout 6.1, "How Tax Laws Are Passed," or display it using an overhead projector.



Individually, in groups, or as an entire class, have the students fill in each empty box, from top to bottom, with one of the listed phrases until they have completed a flowchart showing the progress of tax legislation.

In the space to the right and left of the flowchart, have students list actions that citizens and groups can take to affect legislation. Have them draw lines to the appropriate box(es) to show where such actions might be most effective.

Near the first two boxes, students should list writing letters to congressmen, especially local representatives and those on the Ways and Means Committee; phoning or FAXing these representatives; circulating and/or signing petitions; attending town meetings or similar events where congressmen appear; joining and supporting actions groups. Near the third and fourth boxes, students should list similar contacts with senators. Next to the fifth and sixth boxes, students could list various contacts with members of the joint committee and repeated contacts with their own congressmen. Near the boxes in which the president signs or vetoes the bill, they could suggest letters, FAXes, or computer mail to the White House, or perhaps addressed to the president's advisors. If Congress attempts to override a veto, they have another chance to influence their own representatives.

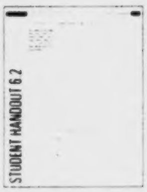
At the next election, they can use their vote to "reward" representatives who have responded to them, and "punish" others by supporting opposition candidates.

Concluding the Lesson

Distribute copies of Student Handout 6.2, "Case Study: The Duck Stamp Tax."

Have the students read the case study and think about the issues involved. Then have them read the statement at the bottom of the page and take a position for or against it.

The procedure they describe should include many elements of the "informal tax legislation process."



Divide the class into two teams, and conduct a formal debate on the statement, limiting the time members of each side have to present arguments and offer rebuttals to the argument of the other side.

If the class feels that the side arguing for repeal of the Duck Stamp Tax has won the debate, have the students outline a procedure for getting Congress to rescind it.

Extending the Lesson (Homework or research assignment)

If Congress is in session and currently debating any tax bills, have students research the issue(s) involved and present reports. Then, as a class, adopt a position on the pending bill or certain of its provisions. (If desirable, permit a minority position as well.) Have students, working in groups, write letters to their local representative or senator or to a member of the committee currently dealing with the bill. Monitor the progress of the bill through the legislative process.

OR

Have students look up (in newspapers or news magazines) the provisions of the most recently passed federal tax bill. After they have reported on its main provisions, assign groups to interview various people who might have been affected by the bill and learn about its impact. (They should include owners of large and small businesses, retired people, real estate agents, and spokesmen for environmental groups, welfare agencies, and charitable organizations.)

UNDERSTANDING
Fairness Issues

Lessons:

- Taxes Affect Different Income Groups (Video D)
- Taxes...What Is Fair? (Video E)

Student Handout 7.1

GLOSSARY OF KEY TERMS

Progressive Tax

A tax that takes a larger percentage of income from high-income groups than from low-income groups.

Regressive Tax

A tax that takes a larger percentage of income from low-income groups than from high-income groups.

Proportional Tax

A tax that takes the same percentage of income from all income groups.

Vertical Equity

The idea that people in different income groups should pay different amounts of taxes, or different percentages of their incomes as taxes. "Unequals should be taxed unequally."

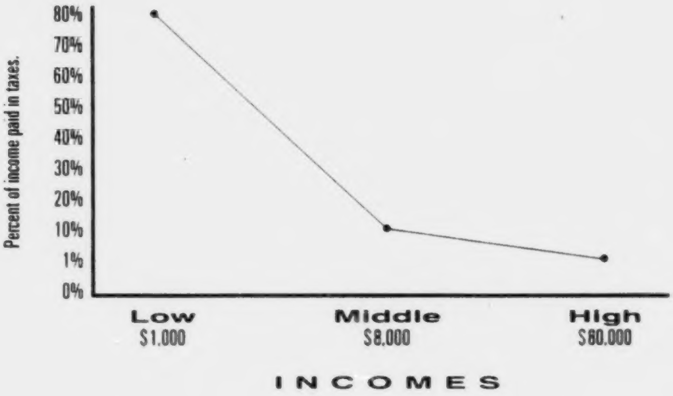
PROGRESSIVE, REGRESSIVE, AND PROPORTIONAL TAXES

A regressive tax takes a larger percentage of low incomes than high incomes. In the region around Dracula's castle, everyone paid $800 in taxes:

Regressive Tax ($800 per person)

INCOME	PERCENT OF INCOME PAID IN TAX	AMOUNT OF TAX
$1,000		
$8,000		
$80,000		

Regressive



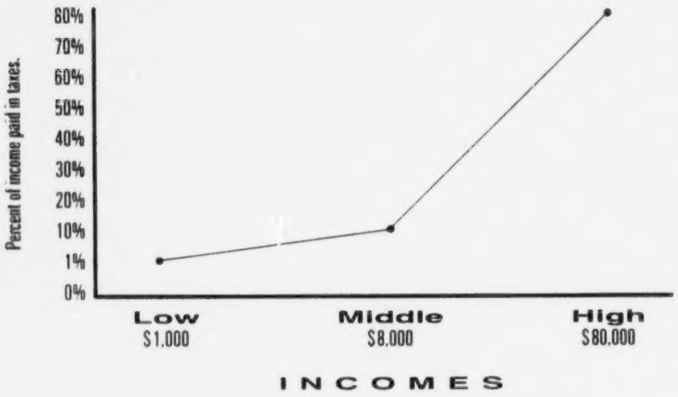
A progressive tax takes a larger percentage of high incomes than low incomes. In Dead Man's Gulch on the island of Hamalot, low incomes were taxed at 1%, middle incomes at 10%, and high incomes at 80%.

Progressive Tax (1%, 10%, 80%)

INCOME	PERCENT OF INCOME PAID IN TAX	AMOUNT OF TAX
$1,000		
$8,000		
$80,000		

PROGRESSIVE, REGRESSIVE, AND PROPORTIONAL TAXES (CONTINUED)

Progressive

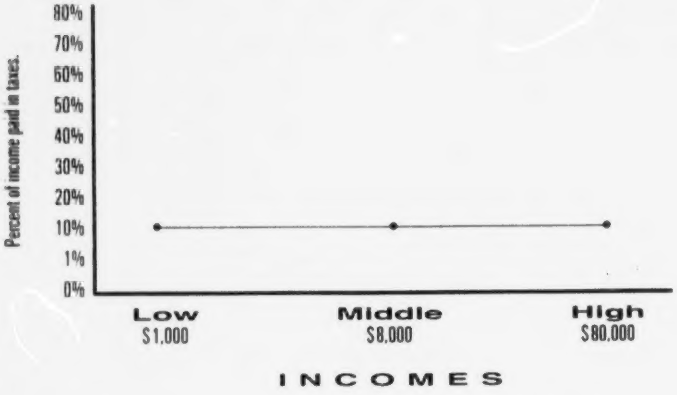


A proportional tax takes the same percentage of all incomes. On Hamalot, in the area around the Fleabag Hotel, everyone pays 10% of their income in taxes.

Proportional Tax (10%)

INCOME	PERCENT OF INCOME PAID IN TAX	AMOUNT OF TAX
$1,000		
$8,000		
$80,000		

Proportional



ANALYZING SPECIFIC TAX SITUATIONS

Discuss the situations and questions with other students.

The Federal Income Tax

In the progressive federal income tax, taxable income is less than total income. The difference between a person's total income and that person's taxable income affects the overall progressiveness of the federal income tax system.

In 1993, many single taxpayers were allowed a personal "exemption" of $2,350 and a "standard deduction" of $3,700 so that they could earn up to $6,050* without incurring a federal income tax liability. Both the personal exemption and the standard deduction may increase in future years because of inflation.

Question 1

Other things constant, will increasing the amount of income not subject to tax liability make the income tax more or less progressive? Why?

The Federal Social Security Tax

The FICA tax is levied on employers, employees, and certain self-employed individuals. Revenues go to social security retirement and Medicare. In 1993, the employee's contribution to the retirement part of the FICA tax was 6.2% of the first $57,600 earned in wages and salaries. The employee's part of the social security payroll tax applies only to wages, salaries, and other earned income. (The Medicare part of the tax was 1.45% on up to $135,000 of earned income.) People with income from interest and dividend payments do not have to pay any social security tax on this income.

Question 2

Over the wage and salary income range of $0 to $57,600, was the social security tax regressive, progressive, or proportional? Why?

Question 3

For employees who earned more than the $57,600 ceiling, was the social security tax regressive, progressive, or proportional? Why?

Question 4

For people with income from interest and dividend payments, is the social security tax regressive, progressive, or proportional? Why?

A State Gasoline Tax

One year, in a state in which there is a 10¢ per gallon excise tax on gasoline:

Driver A: total income—$5,000; state gasoline taxes—$50 (1.0% of income).

Driver B: total income—$10,000; state gasoline taxes—$75 (.75% of income).

Driver C: total income—$20,000; state gasoline taxes—$100 (.5% of income).

Question 5

Is the state gasoline tax regressive, progressive, or proportional? Why?

Question 6

Do you think that excise taxes on such consumer products as automobile tires, tobacco products, distilled spirits, etc. would be regressive, progressive, or proportional? Why?

LESSON SUMMARY

TAXES AFFECT DIFFERENT INCOME GROUPS

PURPOSE

To help students understand that taxes can have different effects on different income groups.

OBJECTIVES

After viewing the video program and participating in the suggested activities, students will be able to:

- define and give an example of the following, using income as a measure of ability to pay: a progressive tax; a regressive tax; and a proportional tax
- explain how a mixture of regressive and progressive taxes could combine to make our overall tax system roughly proportional

LESSON CONTENT

A regressive tax takes a larger share of income from low-income groups than from high-income groups. Regressive taxes include fixed amounts of tax on each individual or household or a sales or excise tax.

Regressive Tax ($800 per person)

INCOME	PERCENT OF INCOME PAID IN TAX	AMOUNT OF TAX
$1,000	80%	$800
$8,000	10%	$800
$80,000	1%	$800

A progressive tax takes a larger percentage of income from high-income groups than from low-income groups. A progressive tax system might tax low-income taxpayers at 1%, middle-income taxpayers at 10%, and high-income taxpayers at 80%.

Progressive Tax (1%, 10%, 80%)

INCOME	PERCENT OF INCOME PAID IN TAX	AMOUNT OF TAX
$1,000	1%	$10
$8,000	10%	$800
$80,000	80%	$64,000

A proportional tax takes the same percentage of income from all income groups. A "flat" tax of 10% on all taxpayers would take the same percentage of the income of low and high income groups:

Proportional Tax (10%)

INCOME	PERCENT OF INCOME PAID IN TAX	AMOUNT OF TAX
$1,000	10%	$100
$8,000	10%	$800
$80,000	10%	$8000

In the United States, the combination of federal, state, and local taxes creates a tax system that is a complex mix of a progressive income tax, modified by a number of exemptions, deductions, and credits that lower tax liability, plus a regressive social security tax, a variety of state income taxes and local property taxes, and excise taxes and user fees, which are somewhat regressive. The result of the combination is that taxpayers over a wide range of income levels end up paying roughly the same percentage of their incomes in taxes. While no single tax is proportional, the combination of different taxes creates a roughly proportional system.

WHAT IS FAIR?

Indicate whether you think the basic rationale for each of the taxes or payments listed below is benefits received **BR,** ability to pay based on wealth **APW,** ability to pay based on income **API,** or uncertain **?** by placing the appropriate letters or a "?" in the column headed "Basic Rationale."

Indicate whether you think each tax is fair **F,** unfair **U,** or uncertain **?** by placing the appropriate letter or a "?" in the column headed "Fairness Rating."

Compare your answers with those of other students. Discuss any differences or uncertainties that occur, and see if you can reach agreement after your discussion.

Type of Tax or Payment		Basic Rationale	Fairness Rating
1. Driver's License Fees:	A fixed dollar amount for each driver. The amount varies from state to state.		
2. Personal Property Taxes:	A percentage of personal property value over and above any allowable exemptions.		
3. Personal Income Taxes:	A percentage of each person's taxable income.		
4. Hunting License Fees:	A fixed dollar amount for each hunter. The amount varies from state to state.		
5. Estate Taxes:	A percentage of an estate's value over and a bove any allowable exemptions.		
6. Sales Taxes (with all retail items covered):	A percentage of retail products' pretax sales price.		
7. Sales Taxes (with some "basic necessities" such as food and medicine not covered):	A percentage of covered retail products' pretax sales price.		

LESSON SUMMARY
TAXES...WHAT IS FAIR?

PURPOSE

To help students understand that it is difficult to get agreement on a "fair" tax because people have different values and priorities, but that two criteria that can be used to assess tax fairness are benefits received and ability to pay.

OBJECTIVES

After viewing the video program and participating in the suggested activities, students will be able to:

- identify and describe two criteria of tax fairness: benefits received and ability to pay
- distinguish between wealth and income as measures of ability to pay
- discuss and classify different taxes on the basis of fairness and impact on either wealth or income

LESSON SUMMARY

The fairness of a tax is judged by the benefits received and ability to pay.

Benefits received means that people should pay taxes in rough proportion to the benefits they receive from government goods and services.

Ability to pay means that people's taxes should be in proportion to their resources. People's resources differ because they have different amounts of

- **wealth (assets and property such as**
- **houses, cars, stocks, bonds,**
- **savings accounts, or valuables), or**
- **income (wages, rents, interest, profits, or other payments).**

To be fair, people who differ according to these criteria should pay different amounts of taxes, but it is often difficult to apply the criteria to a particular tax. Some examples:

- The gasoline excise tax is paid on each gallon of gas bought to support highway construction and maintenance. People who buy more gas pay more tax, but presumably they use the roads more and receive more benefits than those who drive less. The tax is fair according to benefits received, but not according to ability to pay; low-income drivers pay the same tax as those with high incomes.
- A property tax, levied on the value of a house or other property, usually supports schools. Owners of valuable property pay more, even if they have no children in schools and regardless of their incomes. The tax is fair on the basis of ability to pay—wealth, but not on the basis of ability to pay—income and only partly on the basis of benefits received (in general, all benefit from good schools).
- The federal income tax is levied on many kinds of income and supports a wide range of government services. In general, people with larger incomes pay more. However, it is possible for people to have income from sources that are not taxed (tax-free bonds, much social security income) and unequal amounts of wealth. Not all people benefit equally from government services. The income tax may be considered generally fair on the basis of ability to pay—income but possibly less fair on the basis of benefits received.

In many cases, it is hard to determine who benefits from tax-funded programs. In the case of the gas tax, for example, even non-drivers may use buses or taxis, and they benefit from goods and services brought to them over highways.

LESSON 7
TAXES AFFECT DIFFERENT INCOME GROUPS

PURPOSE

To help students understand that taxes can have different effects on different income groups.

OBJECTIVES

After viewing the video program and participating in the suggested activities, students will be able to:

- define and give an example of the following, using income as a measure of ability to pay

  —a progressive tax

  —a regressive tax

  —a proportional tax

- explain how a mixture of regressive and progressive taxes could combine to make our overall tax system roughly proportional

MATERIALS

- Video Program D, "Taxes Affect Different Income Groups"
- Student Handout 7.1, "Glossary of Key Terms"
- Student Handout 7.2, "Progressive, Regressive, and Proportional Taxes"
- Student Handout 7.3, "Analyzing Specific Tax Situations"
- Student Handout 7.4, "Lesson Summary"

KEY TERMS

Progressive Tax
A tax that takes a larger percentage of income from high-income groups than from low-income groups.

Regressive Tax
A tax that takes a larger percentage of income from low-income groups than from high-income groups.

Proportional Tax
A tax that takes the same percentage of income from all income groups.

Vertical Equity
The idea that people in different income groups should pay different amounts of taxes, or different percentages of their incomes as taxes. "Unequals should be taxed unequally."

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Opening the Lesson

Tell the class that they represent all the taxpayers of a country.

Write $10,000 on the board.
Approximately one-third of the class could be considered low-income. Their average income is $10,000.

Write $50,000 on the board.
Another third of the class is to be considered middle income, reporting about $50,000 a year.

Write $100,000 on the board.
The third group represents the high-income taxpayers with taxable income of $100,000 per year.

The board should list the income groups vertically:
$10,000
$50,000
$100,000

After a minute or two of discussion, start applying their suggestions as follows:

Ask the students, "What system can we devise to tax these three groups?"
Accept all suggestions temporarily. Elicit, if possible, suggestions for taxing each group the same amount, the same percentage, or different percentages.

If students suggest taxing everyone the same percentage of income, ask them to suggest an appropriate amount. Then have them figure the amount of tax owed by each income group using the percentage they suggest, and write the results in the form of a table on the board.
If the students suggest a flat 10% tax, for example, the board would look like this:

Income	Percentage	Amount
$10,000	10%	$1,000
$50,000	10%	$5,000
$100,000	10%	$10,000

Use student suggestions or have them suggest an appropriate amount for a system in which each taxpayer pays the same amount. Then have the students figure the percentage of each group's income that would be affected.

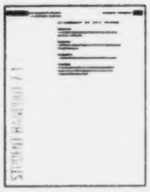
If students suggest, for example, that all taxpayers should pay $2,000, rewrite the table as follows:

Income	Percentage	Amount
$10,000	20%	$2,000
$50,000	4%	$2,000
$100,000	2%	$2,000

Use student suggestions or elicit ideas for a plan in which each income group is assessed a different tax rate. Ask students to suggest an appropriate rate for each group, figure the tax amount, and enter the information in the table on the board.

If students suggest rates of 5%, 15%, and 30% for low- to high-income groups, the table will look like this:

Income	Percentage	Amount
$10,000	5%	$500
$50,000	15%	$7,500
$100,000	30%	$30,000



Distribute, or display using an overhead projector, Student Handout 7.1, "Glossary of Key Terms." Have students study the definitions of progressive, regressive, and proportional tax.

Ask the students to apply each term to the tax systems they have suggested that are illustrated on the board.

The first system showed a flat tax rate on all incomes — a proportional tax. The second example showed a regressive tax — everyone paid the same amount. The third example illustrates a progressive tax with a graduated tax rate — a higher percentage is assessed on higher income taxpayers.

Note: You may want to ask your students to calculate the revenues generated by each system. To do so, they will have to decide how many taxpayers — about 1/3 of the class — are in each income group.

Point out to the students that these tables do not tell how much tax revenue is generated by each system. To know that, they would have to know how many taxpayers are in each income group.

Announce that the students will see a video program dramatizing the effect of these three different kinds of taxes.

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Developing the Lesson

Show video program D, "Taxes Affect Different Income Groups." (15 minutes)

Following the program summary is a set of discussion questions. You may want to pause the tape and ask the questions at the points indicated or wait and ask all questions at the conclusion of the video.

Program Summary

Sam Spode is a detective character in a 1940s-style movie. He lives on Hamalot Island where the citizens are in revolt about taxes. Hired by the "queen" to uncover the cause of the revolt, he sets out on a tour of the island with his beautiful and intelligent assistant Lana Lamour. At their first stop, Dracula's castle, they learn that all people in the region must pay $800 in taxes, whether they earn only $1,000 as Dracula's servant Igor does, or $80,000, as Dracula's neighbor does. Those with the lowest incomes pay 80% in taxes; those with the highest income pay 1%. Sam eats pies and learns that this tax is regressive.

At their next stop, the dusty western town of Dead Man's Gulch, Sam and Lana interview the local sheriff and tax service specialist, who explains that the town is up in arms because the local tax is "too progressive." Those with the lowest incomes pay at a 1% tax rate. The middle-income taxpayers pay at a 10% tax rate, but the highest-income group pay at an 80% rate. A rich cattle baroness, in jail for disturbing the peace in her protest against taxes, explains that the high tax rate is forcing the cattle barons to let their employees go and cut back on work to lower their profits.

Back at Sam's office, Lana throws off her disguise and confesses that she is actually a tax inspector. She explains that in this part of the island a tax prevails that is neither regressive nor progressive, but proportional: all people pay the same 10% of their income as tax, regardless of the size of their income. She and Sam discuss the U.S. tax system, which combines regressive sales taxes and progressive income taxes in a way that ends up being roughly proportional. In the United States most people end up paying about the same percentage of their income in tax, though they may pay more of one kind of tax and less of another. Sam and Lana start to report their findings to the "queen," who steps out of character and brings this "educational video" to its conclusion.

To help the students understand the video program, ask them the following questions, either when you pause the video at the points indicated in brackets, or after the students have seen the complete video program:

[When the video shows a map of Hamalot following Sam's and Lana's visit to Dracula's castle.]

Ask, "Who is likely to be angriest about the tax situation in Dracula's region?"

Igor, and people earning similar low incomes, earned only $1,000 a year, but they had to pay $800 or 80% of their incomes in tax, leaving only $200 to live on.

BEST COPY AVAILABLE

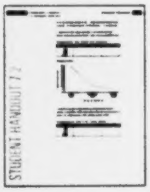
"Do we have a similar regressive tax in the United States?"

Many states have sales taxes, which are regressive because they tend to take a larger percentage of the income of low-income taxpayers than of high income taxpayers. To make such taxes less regressive, many states exempt basic necessities such as food from the sales tax. Similarly, such federal excise taxes as alcohol and gasoline taxes take a larger percentage of income from those with low incomes.

[When the video again features the map following Sam's and Lana's visit to the sheriff of Dead Man's Gulch.]

Ask, "What was the problem with the progressive tax in Dead Man's Gulch?"

The tax rate — 80% — on the highest income taxpayers was so high that they felt they could not afford to stay in business. (The system might have worked better if the tax were somewhat less progressive — if, for example, the rates started at 5% or 10% and went up to a maximum of 35% or 40%.)



[At the conclusion of the video program.]

Ask, "How does the proportional tax differ from regressive and progressive taxes?"

It takes the same percentage from all taxpayers.

Student Activity

Distribute copies of Student Handout 7.2, "Progressive, Regressive, and Proportional Taxes." Tell the students that they are to use the three tax examples from the island of Hamalot to create tables and graphs.

Have the students first create three tables in the same form as those on the board at the opening of the lesson. They will need to calculate the dollar amount of the taxes in some of the examples.

Tables should look like this:

Regressive Tax ($800 per person)

INCOME	PERCENT OF INCOME PAID IN TAX	AMOUNT OF TAX
$1,000	80%	$800
$8,000	10%	$800
$80,000	1%	$800

Progressive Tax (1%, 10%, 80%)

INCOME	PERCENT OF INCOME PAID IN TAX	AMOUNT OF TAX
$1,000	1%	$10
$8,000	10%	$800
$80,000	80%	$64,000

Proportional Tax (10%)

INCOME	PERCENT OF INCOME PAID IN TAX	AMOUNT OF TAX
$1,000	10%	$100
$8,000	10%	$800
$80,000	10%	$8000

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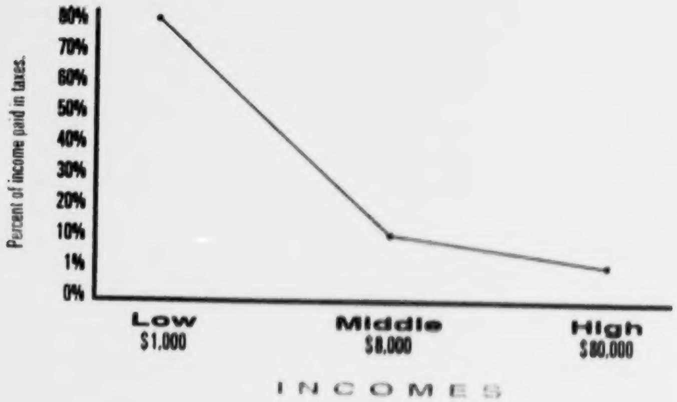
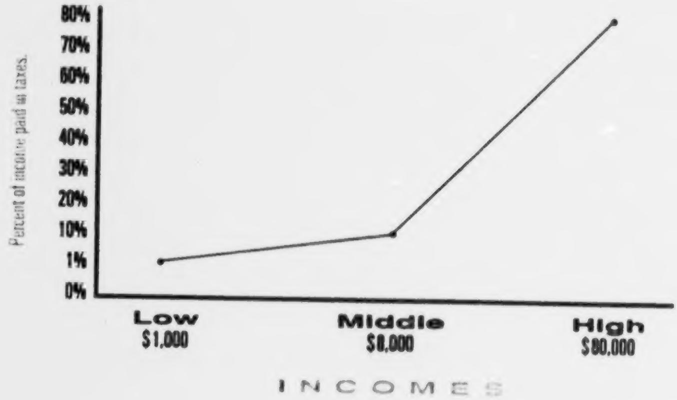
Then have the students plot the curve on the graphs by joining the dots and writing the correct amounts over each.

Graphs should look like this:

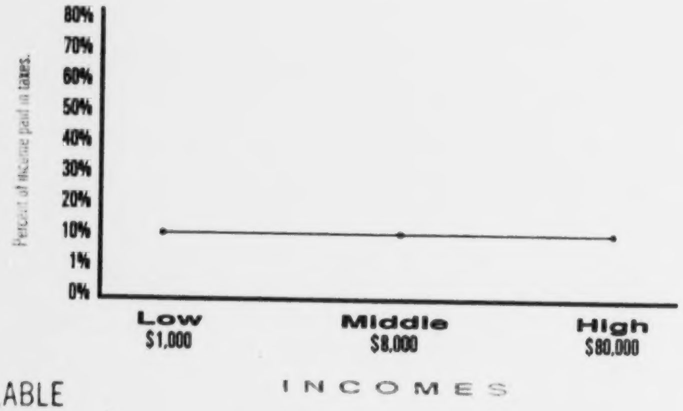
Regressive



Progressive



Proportional



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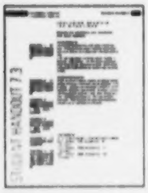
Concluding the Lesson

Distribute Student Handout 7.3, "Analyzing Specific Tax Situations"

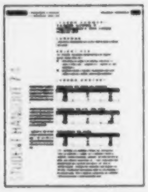


Have the students work in pairs or small groups for 10 minutes to discuss the information and answer the questions on the handout. Encourage them to jot down notes.

As a class, discuss the situations and the students' answers to the questions.

Suggested answers:

1. **More progressive.** More low-income earners will be removed from the tax roles because their income is below the amount needed to incur a tax liability.
2. **Proportional.** They took the same percentage (6.2%) of all earned income over the given range.
3. **Regressive.** They paid no social security tax on earned income over $57,600, so their average tax rate would be lower than the rate for people who earned $57,600 or less. (However, they did pay income tax on these earnings, so their total liability for all taxes may have been proportional or even progressive.)
4. **Regressive.** They pay no social security tax on the interest and dividend part of their income, so their average tax rate would be lower than the rate for people who do not receive any interest or dividend income. (They do owe income tax on most of this income, so their total tax liability may be proportional or even progressive.)
5. **Regressive.** It takes a higher percentage of low incomes (1.0%) than of high incomes (.5%). (This is true even though the higher income groups in this example used more gas and paid larger dollar amounts. The percentage of their income paid in gas tax declined as their income increased.)
6. **Regressive.** It is likely that low-income groups would spend a larger proportion of their income on the taxed items than high-income groups.



Distribute Student Handout 7.4, "Lesson Summary." Make sure that any students who missed the lesson receive this and the other handouts for the lesson.

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Extending the Lesson

Group homework or second class day

Divide the class into several small groups (three to five members each). Indicate that one group is "low income"; each of its members has an income of $10,000. Another group is "high income"; each member has an income of $80,000. The remaining groups are "middle income"; all members have incomes of $40,000.

Write on the board the total number of students at each income level, and have the students copy the figures.

For example:

low income:	5	(one group)
middle income:	15	(three groups)
high income:	4	(one group)

Tell the students that a tax system must be devised for the class so that the student "taxpayers" generate a total of $100,000 in revenues. Each group is to devise a system of taxes that accomplishes this goal with the greatest possible fairness to all taxpayers.

Explain that each student group will be asked to present its tax system. They may use charts or draw on the board, and they should explain which parts of the system they devise are progressive, regressive, or proportional.

Assess the student proposals on the basis of their awareness of the effect of different taxes on taxpayers of different income levels.

A completely fair system is nearly impossible to create. Student effort and evidence of awareness of the difficult issues is more important than actual results.

LESSON 8
TAXES...WHAT IS FAIR?

PURPOSE

To help students understand that it is difficult to get agreement on a "fair" tax because people have different values and priorities, but that two criteria that can be used to assess tax fairness are benefits received and ability to pay.

OBJECTIVES

After viewing the video program and participating in the suggested activities, students will be able to:

- identify and describe two criteria of tax fairness: benefits received and ability to pay
- distinguish between wealth and income as measures of ability to pay
- discuss and classify different taxes on the basis of fairness and impact on either wealth or income

MATERIALS

- Video Program E, "Taxes...What Is Fair?"
- Student Handout 8.1, "What Is Fair?"
- Student Handout 8.2, "Lesson Summary"

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KEY TERMS

Benefits Received
A criterion of tax fairness based on the assumption that people should pay taxes in rough proportion to the benefits they receive from government goods and services.

Ability To Pay
A criterion of tax fairness that assumes that people with different amounts of wealth or different amounts of income should pay different amounts of taxes. Wealth may include assets and property such as houses, cars, stocks, bonds, savings accounts, or valuables. Income includes wages, rents, interest, profits, or other payments.

Opening the Lesson

Point out to the students that three sorts of taxes are shown for both households: state income tax, property tax, and gasoline excise tax. Explain that the state income tax is a flat 5% for all levels of income; that the gas excise tax is $.10 on each gallon purchased and supports road construction and maintenance; and that the property tax mainly supports local schools.

Write the following information on the board:

Millers	Carpenters
retired teachers	young couple, 3 children. Factory worker; school bus driver & rural paper route
Home owners	Rental home
$40,000 income	$25,000 income
Taxes	
$2,000 state income tax	$1,250 state income tax
$100 gas excise tax	$350 gas excise tax
$1,000 property tax	no direct property tax

Ask, "Are these taxes fair? Is it fair that the Millers pay more income tax than the Carpenters?"

According to the ability-to-pay criterion, it appears fair that the Millers, with larger incomes, pay a larger amount of tax than the Carpenters, but the Carpenters, with three young children, may still find their lower tax more difficult to pay.

Ask, "Is it fair that the Carpenters pay much more gas tax than the Millers?"

Students should point out that part of the Carpenters' income comes from the school bus route and the paper route; both of these require use of gas and use of roads.

Ask, "Is it fair that the Millers, with no children, pay property tax to support schools and the Carpenters, who have three children, pay no direct property tax at all?"

If the schools are well supported, presumably graduates will be better educated, get good jobs, and pay into the social security system, which helps to support the Millers. All citizens benefit indirectly from having a well-educated population. Also, the Carpenters may pay property taxes indirectly since part of their rent goes toward paying their landlord's property tax.

Write "ability to pay" and "benefits received" on the board.

State that students will see a video program about fairness in taxation.

Point out that these examples show that taxes, to be fair, need to take into account differences in taxpayers' incomes—their ability to pay—and also in differences in the amount of benefits received. If students are puzzled about the meanings of these phrases, read and discuss the definitions in the glossary.

Developing the Lesson

Show the video program (15 minutes).

Program Summary

Julia (Jules) Madsen, a 17-year-old computer/multimedia whiz, offers to help her brother Connor, 19, with a required school paper on fairness in taxation in return for use of the family car. Jules's CD-ROM disc reveals images of things taxes pay for—roads, schools, courts, the armed services—and produces a chart showing two criteria for the fairness of taxes: benefits received and ability to pay. Ability to pay may be judged according to either the wealth or income of the taxpayer.

Connor says he needs examples of the effects of taxes. He and his girlfriend Dana go to the local gas station to interview people buying gas and paying the gasoline excise tax. While Dana thinks that a tax on gasoline to support highways is fair, their friend Louis protests that it places a greater burden on those with low incomes than those with higher incomes. Jules's computer rates the gas tax as "fair" according to "benefits received" but "unfair" according to "ability to pay."

Jules sends her friend Lynette next door to interview Mr. Grabowski, a retired businessman and former mayor, who protests a rise in his property tax because he has no children attending the local schools it supports.

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Lynette responds that her father says that the entire community benefits from good schools. Mr. Grabowski points out that his income is much less since his retirement, so he should pay less property tax. Jules's computer screen shows the property tax rated "fair" on the basis of "ability to pay—wealth" but "unfair" on the basis of "ability to pay—income."

Connor picks up his paycheck, grumbling about the tax that has been withheld. Dana has had exactly the same amount withheld on identical earnings. Connor thinks that less should be withheld from his paycheck because Dana has a greater total income than he does. Her wages are supplemented by income from a trust fund. Jules's computer rates the income tax as "fair" on the basis of "ability to pay—income."

Back at her computer, Jules calls up images that show what government services would be cut if there were no taxes. The students conclude that fairness in taxation depends at least in part on the criteria used to evaluate fairness.

To help the students understand the content of the video, pause the tape at the points indicated in brackets to ask the following questions, or use all the questions as a basis for discussion at the completion of the entire tape:

[At the conclusion of Mrs. Madsen's and Mr. Grabowski's discussion at their mailboxes.]

Ask, "Why have Mrs. Madsen's and Mr. Grabowski's property taxes increased?"
Property taxes usually fund local schools. To pay for an addition to the high school, the community has had to raise property taxes.

[After Connor finishes interviews at the gas station.]

Ask, "After talking to his friends at the gas station, what did Connor decide about the fairness of gas taxes?"
By the "benefits received" criterion, the gas excise tax is fair, but by the "ability to pay" criterion, it is not, because everyone pays the same excise tax for gasoline, regardless of income.

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[After Lynette concludes her interview with Mr. Grabowski.]

Ask, "Why does Mr. Grabowski think the property tax is unfair, even though his house and the Madsens' have similar value and they pay similar property taxes?"

Mr. Grabowski argues that, unlike the Madsens, he has no children who benefit from expenditures on the schools, so he should not have to pay so much tax to support them (difference in benefits received). In addition, he says that because he is retired and living on limited income, the property tax creates a greater burden for him (difference in ability to pay based on income).

AND

Ask, "What does Lynette's father mean when he says that 'everyone benefits from educated citizens?"

Better educated citizens generally have better jobs, contribute more to the tax base, and pay more into the social security fund, which is used to pay retirees such as Mr. Grabowski.

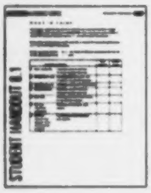
[After Connor and Dana finish discussing their paychecks.]

Ask, "Why does Connor think that he and Dana should have different amounts withheld, even though they receive the same wages for the same number of hours worked?"

Connor knows that Dana has additional income from a trust fund. He thinks that he should have less withheld because he has a smaller gross income than she does. He doesn't seem to realize that income from trust funds—like other income from investments—may be subject to tax. Dana may owe tax beyond what has been withheld, or she may receive a smaller tax refund than he does.

Concluding the Lesson

Distribute Student Handout 8.1, "What Is Fair?"



Have students, individually, in pairs, or in small groups, complete the handout. In the remaining time, discuss their answers together.

Suggested handout answers:

1. Driver's license fees: BR. "Fair" if students think that the fees are used for services that benefit drivers. "Unfair" or "?" if students think that the fees should be based on the ability to pay.

2. Personal property taxes: APW. "Fair" if students think that wealthy people with property should be taxed more than people without property. The answer would be "?" if it's not clear what the property tax receipts are used for and students think that taxes should be based on benefits received.

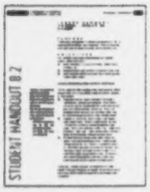
3. Personal income taxes: API. "Fair" if students think that people with high incomes should be taxed more than people with low incomes. The answer would be "?" if it's not clear what the income tax receipts are used for, and students think that taxes should be based on benefits received.

4. Hunting license fees: BR. "Fair" if students think that the fees are used for services that benefit hunters. "Unfair" or "?" if students think that the fees should be based on the ability to pay.

5. Estate taxes: APW. "Fair" if students think that wealthy people who have large estates to pass on to their heirs should be taxed more than people who do not. (The heirs do nothing to "earn" the wealth that is left them.) "Unfair" if students think that people who have worked hard to accumulate wealth should be allowed to leave their estates to anyone they choose without being penalized.

6. Sales taxes with all retail items covered: ? (See Answer 7.)

7. Sales taxes with some "basic necessities" not covered: ?
Sales taxes are based more on political support for paying taxes in small amounts at a time and ease of collection than on either benefits received or ability to pay. Sales taxes with no exemptions hit low-income groups harder than sales taxes that exempt certain "basic necessities," such as food and medicine. Therefore, students who favor an ability to pay criterion may think that tax 7 is "fairer" than tax 6.



Distribute copies of Student Handout 8.2, "Lesson Summary." Make sure that any students who missed this lesson are given a copy of this handout.

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Extending the Lesson

Homework or research assignment

Have the students, individually or in small groups, choose one of the following historical or fictional characters and use encyclopedias or other reference works to learn about their choice. (You may want to add other suggestions to the list.) Then have them write a letter or petition such as their chosen character might have written to a government official expressing a view about a proposed income tax to be used to generate revenues for public security and defense. Letters should describe the point of view or position of the author and reasons for taking a particular position on the proposed tax:

- Robin Hood
- John Calvin
- Aristotle
- Henry Ford
- Gandhi
- Joan of Arc
- Mao Zedong (Mao Tse-tung)

Assess the student letters on the basis of the credibility of the position taken in the letter, given what is reported about the supposed writer, and the quality of the writing.

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UNDERSTANDING
the Impact of Taxes

Lessons:

- Taxes Raise Revenue (Video F)
- Taxes...Can They Be Shifted? (Video G)
- Taxes Influence Behavior
- Taxes Involve Conflicting Goals

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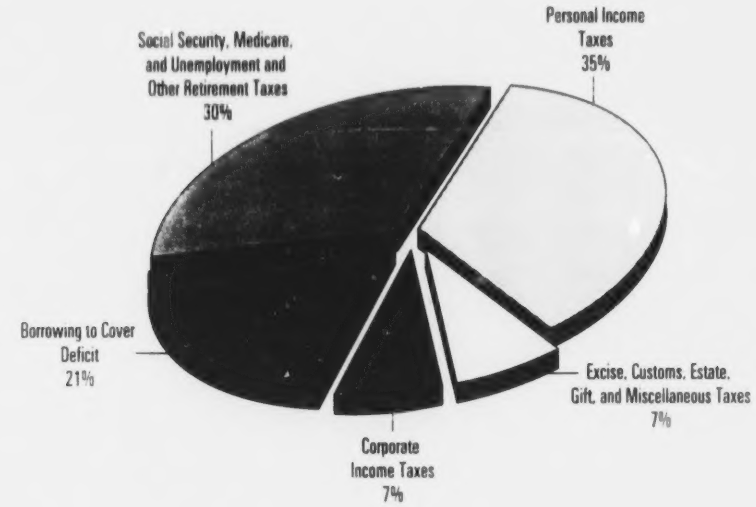
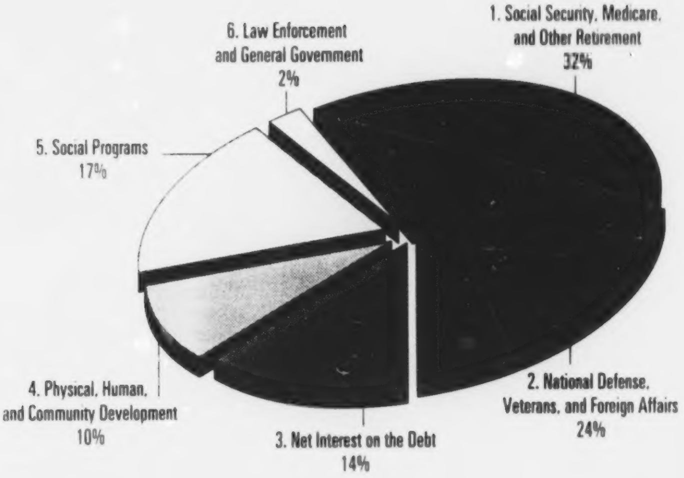
FEDERAL REVENUES AND SPENDING

Where it came from:



Where it went:



1. Social security, medicare, and other retirement: $469.7 billion. These programs were 33% of total outlays. These programs provide income support for the retired and disabled and medical care for the elderly.

2. National defense, veterans, and foreign affairs: $348.6 billion. About 21% of total outlays were to equip, modernize, and pay our armed forces and to fund other national defense activities; about 2% went for veterans benefits and services; and about 1% went for international activities, including military and economic assistance to foreign countries and the maintenance of United States embassies abroad.

3. Net interest: $199.4 billion. About 14% of total outlays were for net interest payments on the public debt.

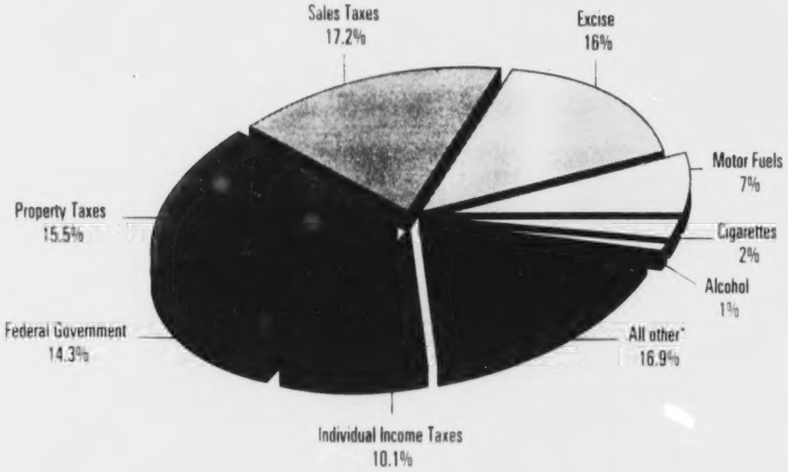
4. Physical, human, and community development: $139.5 billion. About 10% of outlays were for agriculture; natural resources and environmental programs; transportation programs; aid for elementary and secondary education and direct assistance to college students; job training programs; deposit insurance, commerce and housing credit, and community development; and space, energy, and general science programs.

5. Social programs: $235.6 billion. The Federal government spent 10% of total outlays to fund medicaid, food stamps, aid to families with dependent children, supplemental security income, and related programs; About 7% was spent for health research and public health programs, unemployment compensation, assisted housing, and social services.

6. Law enforcement and general government: $27.4 billion. About 2% of outlays were for judicial activities, Federal law enforcement, and prisons; and to provide for the general costs of the Federal government, including the collection of taxes and legislative activities.

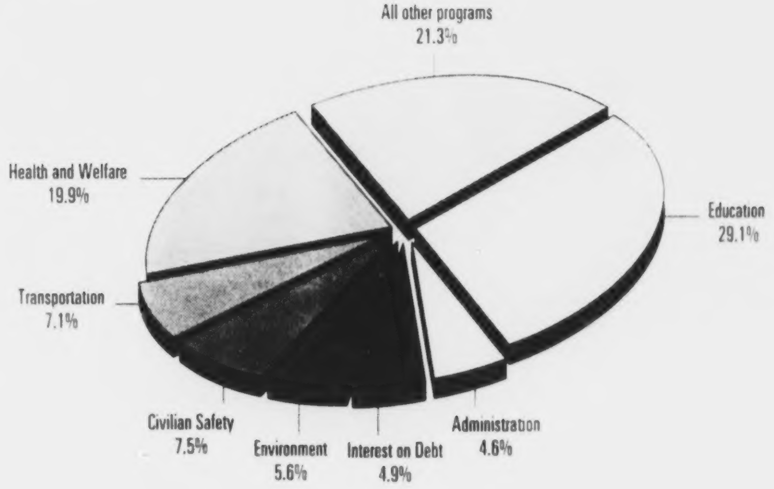
THE STATE AND LOCAL DOLLAR

Where it came from:



*Includes other taxes, charges, misc. revenue, utilities, liquor stores and insurance trust revenues.

Where it went:



TAX REVENUE AND DECISION MAKING IN SPRINGVILLE

Imagine that you are a member of the city council in Springville. Springville receives a grant from the Federal Government to help support certain public services. However because of the budget deficit, Congress has voted to reduce the amount of money it will send to state and local governments next year.

Your job is to decide what to do about the reduced funding for five Springville services. This year, the five services received a total of $60,000. Next year, they will receive a total of $45,000. The amount they receive for next year must be at least as much as they received this year or they must be discontinued. Therefore, your choices are:

A. Discontinue one or more services to save $15,000. If more than $15,000 is saved, the excess savings can be allocated to one or more of the remaining programs

B. Raise money through a new local tax to retain or increase services

Service	Amount This Year	Amount Next Year	How Raised? (Federal Funds or New Local Tax)
Emergency Youth Shelter	$12,000	______	______
Wastewater treatment	13,000	______	______
Occupational Develop. Center	15,000	______	______
Bus system	10,000	______	______
Mental Health Service	10,000	______	______
Totals	60,000	45,000	

Who benefits the most from your plan? Why? ______________________________

____

Who will be affected negatively by your plan? Why? ______________________________

____

If you decide on a new local tax, what type of a tax will it be, and who will pay it? Everyone? Some people, but not others? ______________________________

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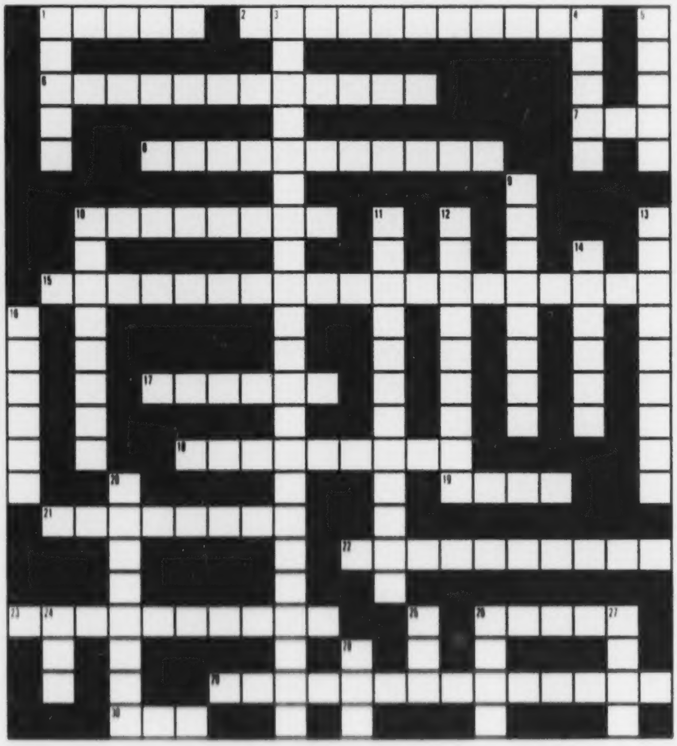
CROSSWORD PUZZLE



Across

1. Percentage of the retail price imposed as a tax is a ______ tax
2. Money retained from a paycheck and credited against tax liablity
6. One of the criteria that makes a tax fair
7. Taxes on such things as alcoholic beverages and cigarettes
8. Tax taking a higher percentage from high-income groups
10. A ______ income tax is based on your taxable income
15. The U.S. system is one of ______ ______
17. Wages, salaries, tips, and commissions are all part of your ______ income
18. You can subtract it before determining taxable income
19. Table servers and bartenders need to declare their ______
21. Another criterion of tax fairness is ______ received
22. Withholding is based on a system of ______ ______ ______ ______
23. A tax taking a larger percentage from low-income groups than from high-income groups
26. Transmitted a return to a taxing agency
29. Mandatory retirement fund
30. Thrown overboard in tax protest

Down

1. In the U.S. tax system, everyone is supposed to pay a fair ______
3. Agency responsible for administering tax law
4. All money, goods, and property received is your ______ income
5. A married couple may choose to file a ______ return
9. A tax that can be shifted to others
10. Schools are often funded by ______ taxes.
11. Tax taking the same percentage of income from all income groups
12. Someone whom you support, often your child
13. Income on which tax is not paid
14. Money withheld from your paycheck goes toward your ______ tax
16. ______ taxpayers may pay at a higher rate than married ones
20. You have to declare ______ and other unearned income
24. A credit or "reverse tax" for low-income group wage earners
25. Tax agency
26. Legislative foundation of social security
27. Tax on imports
28. Required payment to the government

LESSON SUMMARY

TAXES RAISE REVENUE

PURPOSE

To help students understand that taxes are used to raise revenue and transfer resources from use by private individuals to use by various levels of government.

OBJECTIVES

After viewing the video program and participating in the suggested activities, students will be able to:

- describe taxes as required payments that are used to raise revenues for local, state, and federal governments
- explain that taxation reduces income that would otherwise be available to individuals for savings and investments and to purchase goods and services for their personal use

SUMMARY

Taxes provide revenue for federal, local, and state governments to provide citizens with essential services — defense, highways, police, a justice system—that benefit all citizens, who could not provide such services very effectively for themselves. Taxes also provide many goods and services that may directly benefit certain citizens but not others, such as health, welfare, and social services; job training; schools; and parks.

Taxes reduce taxpayers' income, so they have less for personal goods and services, savings, and investments. If taxpayers have to spend too much of their income on public (tax-supported) goods and services, they will spend less in the private economy, which may suffer.

Whenever a new public program or service is proposed that requires new taxes, taxpayers must decide whether the additional benefits are worth the reduction in income.

GLOSSARY OF KEY TERMS

Direct Tax

A tax that cannot be shifted to others. The federal income tax is a good example of a direct tax.

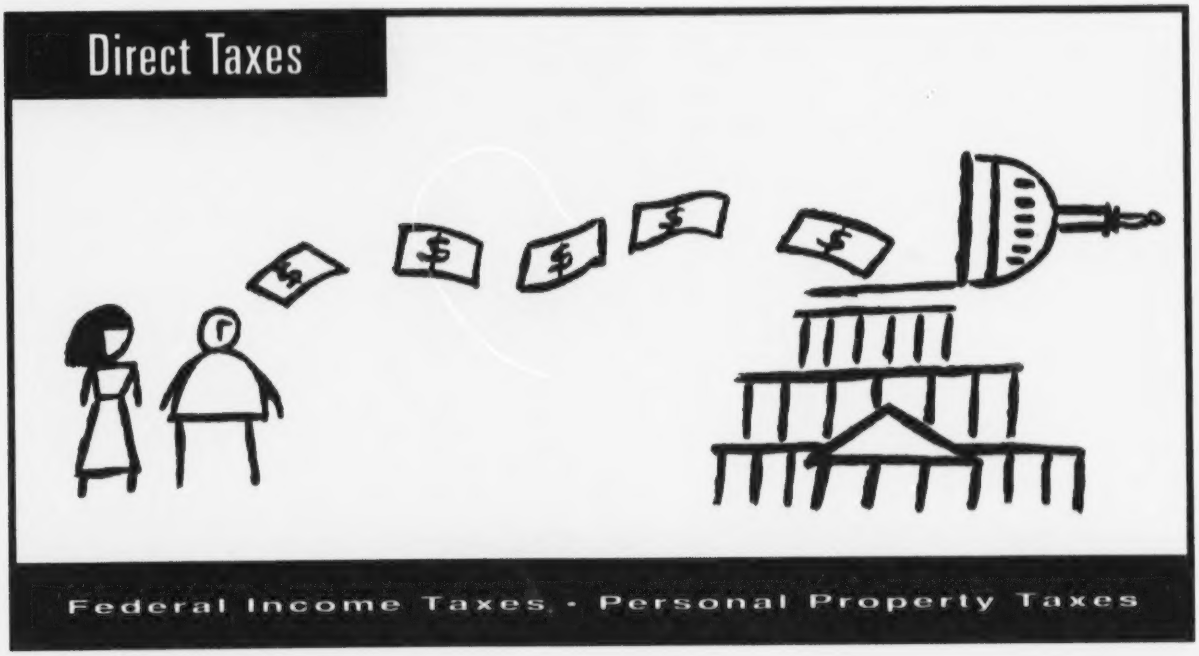
Indirect Tax

A tax that can be shifted to others. The one who pays the tax to a government may be able to recover it from others. Business property taxes are examples of indirect taxes.

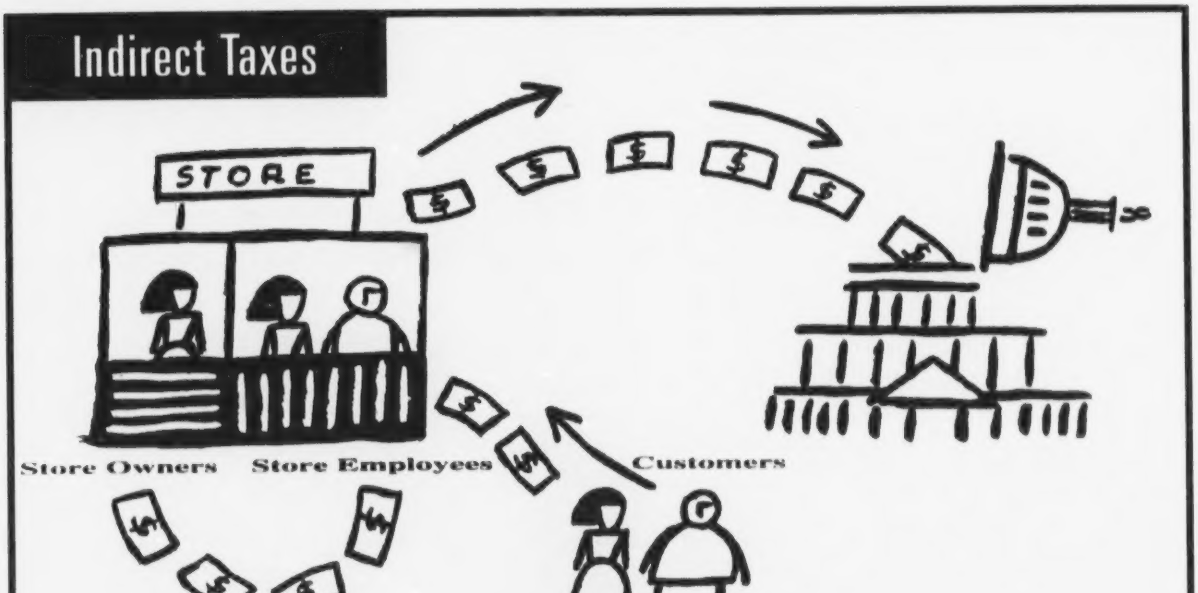
Tax Shift

The process that occurs when a tax that has been levied on one person or group is in fact paid by others.

FLOW OF DIRECT AND INDIRECT TAXES


Direct Taxes

Federal Income Taxes · Personal Property Taxes


STORE
Store Owners
Store Employees
Customers

Indirect Taxes

Sales Taxes · Payroll Taxes · Business Property Taxes

WHO PAYS?

Classify each of the taxes listed below as **direct** or **indirect** by placing an **X** in the appropriate box. Then list the person or group who really pays the tax — **individual taxpayer, consumers, employees, business owners (stockholders).** In some instances, more than one group may be affected.

Type of Tax or Payment		Direct	Indirect	Who Really Pays
1. Driver's License Fees:	A fixed dollar amount for each driver. The amount varies from state to state.			
2. Sales Taxes:	A percentage of a product's pre-tax sales price.			
3. Personal Income Taxes:	A percentage of each person's taxable income.			
4. Business Property Taxes:	A percentage of business property value.			
5. Personal Property Taxes:	A percentage of personal property value.			
6. Payroll Taxes:	A percentage of wages and salaries			

TAX AND GOURMET CHOCOLATES

Manufacturers ideally like to produce and sell as much as possible, but they don't want to produce more than they can sell. When they produce exactly what they can sell—when supply and demand are balanced—their production has achieved "equilibrium quantity." But this balance depends on many factors, notably price. Raising the price may lower the quantity demanded and increase the quantity supplied; lowering the price might have the reverse effect. Price changes will bring about changes in the "equilibrium quantity."

Study the graphs below to understand what happened when a chocolate manufacturer shifted part of a tax increase onto the price of a box of chocolates. Figure 1 shows how the quantity demanded falls as the price rises and the price at which supply and demand are in equilibrium (where the lines cross). Figure 2 adds a new curve to the graph of figure 1 to show what happens when a tax causes a producer to raise prices.

Figure 1

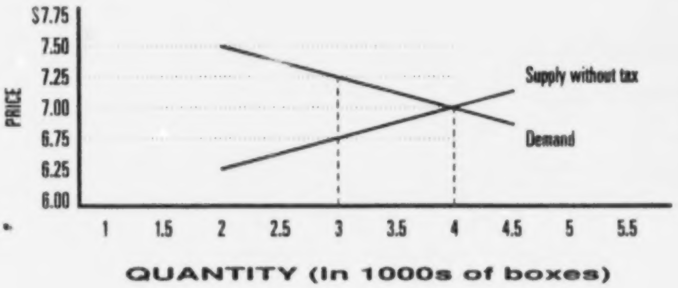
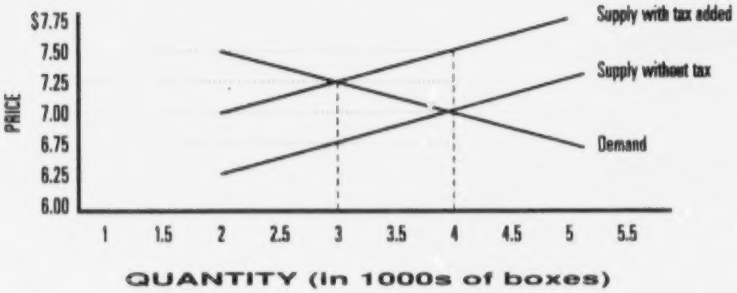


Figure 2



Note: After the tax is imposed, producers do not sell, buyers do not buy, and the government does not collect taxes on the difference between the answers to questions 5 and 6.

1. What was the equilibrium price of the chocolates before the tax was imposed?
2. What was the equilibrium price after the tax was imposed?
3. How much was the tax imposed on each unit of this product? (What is the difference in price between the "Supply with tax added" curve and the "Supply without tax"?)
4. What part of the tax was paid by producers, and what part by consumers?
5. What was the equilibrium quantity in this market before the tax was imposed?
6. What was the equilibrium quantity after the tax was imposed?

LESSON SUMMARY

TAXES...CAN THEY BE SHIFTED?

PURPOSE

To help students understand that a tax levied on one person or group may ultimately be paid by others.

OBJECTIVES

After viewing the video program and participating in the suggested activities, students will be able to:

- explain that all taxes are ultimately paid by the individual
- define direct tax and indirect tax and differentiate between them

SUMMARY (KEY TERMS IN BOLDFACE)

Taxes can be either **direct** or **indirect.**

A direct tax is a tax that the taxpayer pays directly to the government. These taxes cannot be shifted to any other person or group. Examples are:

- the personal income tax
- property tax on a homeowner's own residence

An indirect tax is a tax that can be passed on — or shifted — by the person or business that owes it to another person or group. Businesses may recover the cost of the taxes they pay by charging higher prices to customers, paying lower wages and salaries, accepting lower profits, or paying lower dividends to shareholders. Taxes that can be shifted include:

- sales taxes (customers pay, businesses collect them, but may absorb a portion of them by lowering costs and payroll expenses)
- business property taxes (businesses may charge higher prices, pay lower wages, or suffer lower profits to cover the cost of these taxes)
- payroll taxes (businesses may pay lower wages and salaries than they would if there were no taxes)

Ultimately, almost all taxes are paid by individuals, as business and corporate taxes are shifted to customers, clients, patients, employees, and stockholders.

GLOSSARY OF KEY TERMS

Business Taxes

Taxes levied on businesses by federal, state, or local governments. These may include, in addition to corporate income taxes on earnings and profits, unemployment insurance, workmen's compensation, contributions to social security, and health insurance.

Redevelopment or Enterprise Zone

A government designated area (usually in a city) that is declared in need of restoration and revitalization. To encourage restoration, tax reductions are available.

Sales Taxes

Taxes on retail products, based on a set percentage of retail cost.

Tariff (Duties; Customs Duty or Import Duty)

Taxes on products imported from foreign countries.

Tax Credits

Amounts, based on certain expenditures, that a taxpayer can deduct from taxes owed.

Tax Deductions

A person's or a business's expenses that can be deducted before determining taxable income.

SOURCES OF REVENUES FOR STATE AND LOCAL GOVERNMENTS

Options for State Budget Committee

- Increase excise tax on petroleum products (gas and heating oil)
- Increase excise tax on tobacco
- Increase excise tax on alcoholic beverages
- Impose an excise tax on non-recyclable containers and wrappings
- Impose an excise tax on restaurant meals and hotel bills
- Establish criteria for enterprise or redevelopment zones and provide special corporate income tax relief for businesses that locate in these areas
- Increase income tax deductions for contributions to public schools, colleges and universities, museums, and charities
- Offer income tax credits to businesses for paying for education or training of employees
- Offer income tax credit to a parent who cares full time for one or more of his or her preschool children (not the same as the Child Care Credit in the federal tax system)

TRENDS IN STATE AND LOCAL REVENUE SOURCES

(Figures from Federation of Tax Administrators)

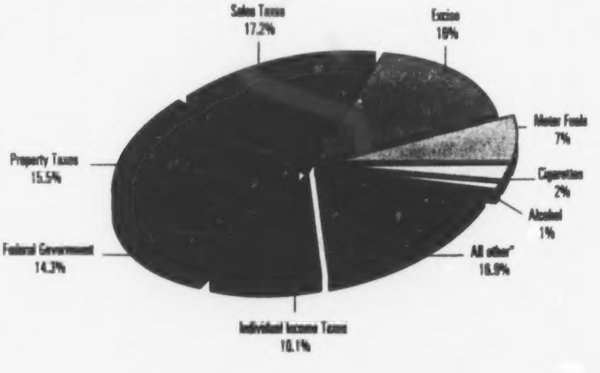
Percentage of state revenue derived, 1972 and 1991

	1972	1991
1. Income taxes	12.3	10.1
2. Sales Taxes	12	17.2
3. Excise taxes	26	16
motor fuels	14	7
cigarettes	5	2
alcohol	3	1

STATE AND LOCAL REVENUES AND SPENDING, 1991 PERCENTAGES

The State and Local Dollar

Where it came from:



*Includes other taxes, charges, misc. revenue, utilities, liquor stores and insurance trust revenues.

LESSON SUMMARY

TAXES INFLUENCE BEHAVIOR

PURPOSE

To help students understand that taxes and tax reductions influence people's behavior in ways that discourage or encourage certain activities.

OBJECTIVES

After participating in the suggested activities, students will be able to:

- explain how taxes on particular goods and services may discourage certain activities, since people can avoid the direct cost of these taxes by not buying or selling goods or services that are taxed
- explain how exemptions and deductions encourage certain activities, since people can decide to engage more in the activities that are exempted

Tax policy is often used to encourage or discourage certain kinds of behavior. Some of the most common taxes levied to discourage consumption follow (key terms in boldface)

- "Sin taxes" are on substances such as alcohol and tobacco that are widely regarded as being harmful and undesirable
- Gasoline taxes raise revenue for road maintenance and construction, but are also meant to encourage conservation
- **Tariffs or duties** on imported cars or other goods make the domestic ones cheaper and more attractive
- Energy taxes are levied to encourage conservation

Tax deductions and credits are used to encourage certain kinds of spending or investment by permitting taxpayers to subtract certain expenses from their income or directly reduce their taxes by credits based on certain expenses

- Cities may establish **redevelopment or enterprise zones** — areas in need of restoration and revitalization — where businesses may be offered tax deductions or credits in return for investment, building, or expansion
- Child-care credits help working parents pay for qualified care for their children
- Deductions for charitable contributions encourage people to support churches, schools, charitable organizations, and arts institutions
- Investment tax credits may be offered to businesses that invest in new and more productive plants and equipment

GLOSSARY OF KEY TERMS

Horizontal Equity

The concept that people in the same income group should pay the same amount of taxes. "Equals should be taxed equally."

Tax Credits

Amounts, based on certain expenditures, that a taxpayer can deduct from taxes owed.

Tax Deductions

A person's or a business's total expenditures that can be deducted before determining taxable income, which is always less than total income and is figured according to IRS rules.

Tax Exemptions

A part of a person's total income on which no tax is imposed.

Vertical Equity

The concept that people in different income groups should pay different amounts of taxes, or different percentages of their income as taxes. "Unequals should not be taxed the same amount or the same percentage."

Case Studies

1. Athenium College, a church-affiliated school, enrolls 15,000 students and employs a staff of 2,500 and a faculty of 2,000. The campus, in the middle of a town of 50,000, contains class and administrative buildings, dormitories, housing for staff and faculty families, parking lots, and athletic facilities. No property taxes are paid on these facilities because the college is a tax-exempt nonprofit institution. Many businesses have opened around the campus, which contracts for its own trash disposal and has its own small police force, but draws on city police for large sports events. Supported by a church, the college's tuition is low. It is exempt from business income tax and state sales tax on its purchases. It is currently engaged in a major building program. Construction equipment has damaged streets. City revenues have been falling for several years, and street maintenance has been reduced.

2. Mr. and Mrs. Green, a retired couple, have $100,000 in income each year from their retirement accounts (IRAs), social security, and interest payments from their large investment in tax-free municipal bonds. Their neighbors, the Whites, are also retired. They, too, have a yearly income of about $100,000, but theirs is almost entirely derived from dividends on stock in the company for which Mr. White worked for many years. They also have some social security and pension income. The Whites' federal income taxes are almost twice the amount of the Greens' because none of the sources of the Whites' income is tax exempt. Congress is considering limiting the ability of wealthy taxpayers to avoid taxes by making certain investments.

3. Mr. and Mrs. Smith, whose joint income is $33,000, claim Mrs. Smith's mother, who is disabled, seven children, and a grandchild as dependents. They also itemize deductions, including their mortgage interest payments. Five of the children work part-time, and the grandchild attends a local Head Start class. Six children attend public schools or colleges, and one of them has a federal student loan. The oldest is in a federal job training program. One of the younger children, who was in an accident, participates in a federally funded remedial program. Exemptions and deductions result in a substantial tax refund for the Smiths each year. The Joneses, who have no dependents and rent a house nearby, earn $33,000, but they get no refund. Legislators in Washington point to the federal deficit and wonder whether to cut student loans and job training programs.

4. Mr. Minh owns a successful printing business, called the Minh Corporation. His business employs 25 people and has been paying about $12,000 a year in federal business income taxes. When Congress passed legislation providing for an investment tax credit (permitting businesses to deduct part of the cost of new equipment from their taxes), Minh decided to add to his plant, install a new high-technology printing press, and hire five more employees. The investment tax credit legislation was challenged by legislators who argued that the country could not afford to grant more tax credits until the deficit was reduced. Mrs. Shiraz, who owns a competing business, complains that Mr. Minh received an unfair advantage.

LESSON SUMMARY

TAXES INVOLVE CONFLICTING GOALS

PURPOSE

To help students understand that taxation involves a compromise of conflicting goals, and that people who have the same income may not pay the same amount in taxes.

OBJECTIVES

After participating in the suggested activities, students will be able to:

- give an example in which the goal of raising revenue conflicts with the goal of reducing taxes to encourage certain activities
- explain that for a given level of government services, lower taxes for some groups (or activities) implies higher taxes for other groups (or activities)
- explain that, as the result of special tax treatment of certain activities and different sources of income, people with the same income may pay different amounts of taxes

Generally, no one pays taxes that are a simple percentage of what they earn or what their property is worth. Taxpayers and businesses may be entitled to subtract certain amounts of money to reduce their tax liability. Among these are:

- tax exemptions
- tax deductions
- tax credits

People and businesses with exactly the same income usually claim different credits and deductions. As a result, they may pay quite different taxes. For example, the Sanchez and Rodriguez families each file a joint return showing total income of $25,000, but there is a $600 difference in the taxes they pay:

	Sanchez	Rodriguez
taxes	$1,474	$2,074
income	$25,000	$25,000
dependents	2	0
mortgage interest	yes	no (renting)
gave to charities	yes	no

The Sanchez family took deductions for two dependents. They may deduct the interest they had paid on their mortgage and their tax-deductible contributions to charities. These deductions might lower their taxes.

Lawmakers grant these deductions to help parents support their children and to encourage home buying and support for charitable organizations. However, when too many taxpayers benefit from such opportunities, revenues may decline. Then lawmakers must decide whether to raise taxes on the rest of the taxpayers or to cut back on services. Sometimes they must decide to accept lower revenues for a while in hopes that by supporting such activities as education, training, or business expansion, incomes, the tax base, and ultimately revenues will increase.

LESSON 9
TAXES RAISE REVENUE

PURPOSE

To help students understand that taxes are used to raise revenue and transfer resources from use by private individuals to use by various levels of government.

OBJECTIVES

After viewing the video program and participating in the suggested activities, students will be able to:

- describe taxes as required payments that are used to raise revenues for local, state, and federal governments
- explain that taxation reduces income that would otherwise be available to individuals for savings and investments and to purchase goods and services for their personal use

MATERIALS

- Video Program F, "Taxes Raise Revenue"
- Student Handout 9.1, "Federal Revenues and Spending" (also used in Lesson 11)
- Student Handout 9.2, "State and Local Revenues and Spending, 1991" (also used in Lessons 4 and 11)
- Student Handout 9.3, "Tax Revenue and Decision Making in Springville"
- Student Handout 9.4, "Crossword Puzzle"
- Student Handout 9.5, "Lesson Summary"

KEY TERMS

Taxes

Required payments of money to various levels of governments that are used to provide public goods and services for the benefit of the community as a whole.

Public Goods and Services

A public good is one that cannot be withheld from those who don't pay for it, and one that may be "consumed" by one person without reducing the amount of the product available for others. Examples include national defense, street lights, and roads and highways. Public services include welfare programs, law enforcement, monitoring and regulating of trade and the economy, and education.

Opening the Lesson

Write on the board a list of programs and services financed by taxes. Point out to the students that all of these programs are supported by federal, state, or local taxes.

Go down the list, asking students to suggest a rationale for supporting such programs with public money.

Students should be permitted to voice their opinions freely and differ on the value of specific programs, but in general a consensus should be elicited that each item on the list is a public good, benefiting and used by the entire country or community in such a way that no one uses it up (highways, education, job training, libraries, defense); a public responsibility (nutrition, unemployment benefits, health care); and/or an investment in future productivity and human resources (job training, youth shelter, drug programs, research). Students might also suggest that many of these programs and benefits are more efficiently provided by the community, state, or nation than by various private individuals (highways, school system, defense, police, etc.)

Adapt or add to the following suggestions to fit your community:

Interstate highways
National defense
Police and fire protection
Public schools and universities
Regulation of banks and money supply
Subsidized school lunches
Medicaid
Job training
Unemployment benefits
Libraries
Air traffic controllers
Fire protection
Youth shelter
Alcohol and drug abuse programs
Medical and scientific research

Suggest to the students that a married couple with a joint income of $50,000 might pay $8,000 in state, local, and federal taxes.

Ask the students, "Suppose the only tax-supported program was national defense, and this couple paid $2,000 rather than $8,000 in taxes. They would have $6,000 more to spend each year, but none of the listed programs except defense would exist. How would this situation change their lives, both in the short term and in the long term? What would happen if many people refused to pay for these services? If all schools were private, would only rich children get an education?"

Permit the students to speculate freely, but help them recognize the role of governments in organizing and regulating a complex society and the probability of chaos in many sectors if this role were abandoned. Students should be led to a realization that certain functions are better performed collectively than individually, though they may disagree about which services are best provided by governments and which by the private sector.

In the short run there might be openings for private businesses to provide services, but as private businesses become unable or unwilling to assume the burden of those who can't pay, the condition of these people would deteriorate, and many would enter the work force — if at all — lacking education and training. The private sector might be unable or unwilling to continue to offer goods and services efficiently even to those who can pay, and it would become increasingly difficult to extend any benefits to those who can't pay.

Cities and towns might become chaotic as essential city services (fire, police, sewers, water supply, waste disposal) either become very expensive or are discontinued. Private businesses might try to provide some of these services for those willing and able to pay. Private trash collection and fire fighting might work, but would private police forces?

At the same time, students should be aware that paying taxes to support collective programs diminishes the taxpayer's ability to support private enterprise through purchases, savings, and investments.

On the national level, airports would shut down, highways would fall into disrepair, and the money supply might become irregular and chaotic. With no social services providing basic food, shelter, and health care to those who couldn't afford it, social unrest might become prevalent. An increasing amount of personal income — probably more than the $6,000 saved with lower taxes — might be needed to maintain a basic level of services.

Ask, "How far would this couple's extra $6,000 go to provide necessary services for their household? How much would they spend on personal items they can't now afford?"

Ultimately, either society would fall into anarchy, or citizens would band together to do collectively what they can't do individually. To support this collective effort they would require everyone to contribute money or labor — in other words, some form of taxes would be reinstituted.

Briefly consider the same issues applied to a married couple with $100,000 in taxable income who normally might pay $40,000. Suppose their total tax bill was only $3,000, earmarked for national defense. They would gain $37,000 in disposable income. How far would this go to support private enterprise through increased purchases, savings, and investments?

Inform the students that they are about to see a video program about taxes and revenue.

A wealthier couple might spend somewhat more than the first couple on essential services such as security, but more of their disposable income would be available for investment in private goods and services. Their buying and investment power would be essential to the financial health of many private enterprises.

Developing the Lesson

Show video program F, "Taxes Raise Revenue" (15 minutes).

Following the program summary is a set of discussion questions. You may want to pause the tape and ask the questions at the points indicated or wait and ask all questions at the conclusion of the video.

Program Summary

Julie and Mark, high school juniors, have been paired with each other for an upcoming economics class debate about taxes. Julie is to support the necessity of taxes to raise revenues for public goods and services, while Mark is to take the opposite side. Ironically, Julie's mother and Mark's father are leading representatives of opposite sides of a similar issue currently before the county council. Julie's mother adamantly opposes new taxes, claiming she can't afford any more, even though some of the proposed new revenues would go to repair a bridge that serves the part of the county where she lives. Mark's father believes that new taxes are necessary to provide revenues for essential county services, including repair of the bridge, emergency services, and police.

Preparing for the debate in class, Mark and Julie decide to attend the county council meeting where their parents both speak. Afterward, the parents react negatively to finding their children in each other's company. Two days later, Julie and Mark debate in class, Julie making a good argument for tax-supported services and Mark arguing against the necessity of all taxes. That evening, Mark invites Julie out. Driving to his house, she takes a detour to avoid the closed bridge and moves slowly through driving rain. When she is blinded by oncoming lights, she swerves. Her brakes fail and the car slides into a ditch. Mark and his father drive along the road looking for her. They come upon the accident scene just after the police have arrived. Later they bring her home, shaken but unhurt. Her mother and Mark's father come to an understanding, as Julie's mother says she now supports raising property taxes to get the bridge repaired.

To help the students understand the content of the video, pause the tape at the points indicated in brackets to ask the following questions, or use all the questions as a basis for discussion at the completion of the entire tape:

[At the conclusion of the scene showing the county council meeting.]

Ask, "What is Julie's mother's view?"

AND

"What is Mark's father's view?"

Julie's mother believes that the property tax increase is much greater than needed, that it would not provide sufficient benefits, and that most of the new revenue would not help her district of the county as much as other areas.

Mark's father argues that the burden of the new tax increases will be shared by everyone, and everyone will benefit from increased services.

[At the conclusion of Julie's and Mark's debate.]

Ask, "What argument does Julie make about taxes?"

AND

"What is Mark's argument?"

Julie argues that taxes are needed to pay for government goods and services that cannot be provided privately, such as defense, education, health and welfare, police and fire protection, and roads and highways. Taxes are the only way to fund such services.

Mark says that every time we pay taxes, we have less money to save, invest, or buy private goods and services. Although some taxes are necessary, we should always try to see whether the benefits we would get from additional taxes make it worth giving up some income.

[At the conclusion of the video.]

Ask, "Why did Julie's mother decide she was wrong and Mark's father was right?"

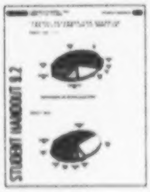
AND

"Who do you think was right, and what will probably happen next?"

She realized that certain public expenditures — such as the repair of the bridge —'could not be postponed.

Permit free discussion. Students might suggest that the county council would adopt a compromise position, raising taxes enough to repair the bridge and provide some services, but perhaps not all that Mark's father wanted.

STUDENT HANDOUT 9.1



Student Activity

Distribute Student Handout 9.1, "Federal Revenues and Spending," and 9.2, "State and Local Revenues and Spending, 1991," or display them on an overhead projector.

Have the students study the pie charts and discuss which, if any, of the expenditures are ones that are not for the general welfare, or which functions could be better handled by the private sector. Encourage the students to give reasons for their answers and to explore the consequences of not having governments provide certain services.

STUDENT HANDOUT 9.3

Concluding the Lesson

Distribute Student Handout 9.3, "Tax Revenue and Decision Making in Springville." Divide the students into three or four groups, and have each group read the scenario and decide how to solve the budget problem in Springville.

Point out to the students that city and county councils and legislatures often face the same problem — whether to cut services or raise additional revenues. Students will need to consider the relative merits and costs of the five services listed and be as fair as possible to the people who benefit from the services and to taxpayers. If they decide to raise additional revenue, they should be as specific as possible about which taxes would be increased and by how much.

There are no right or wrong answers to this exercise, but the figures should add up correctly for whatever plan the students adopt.

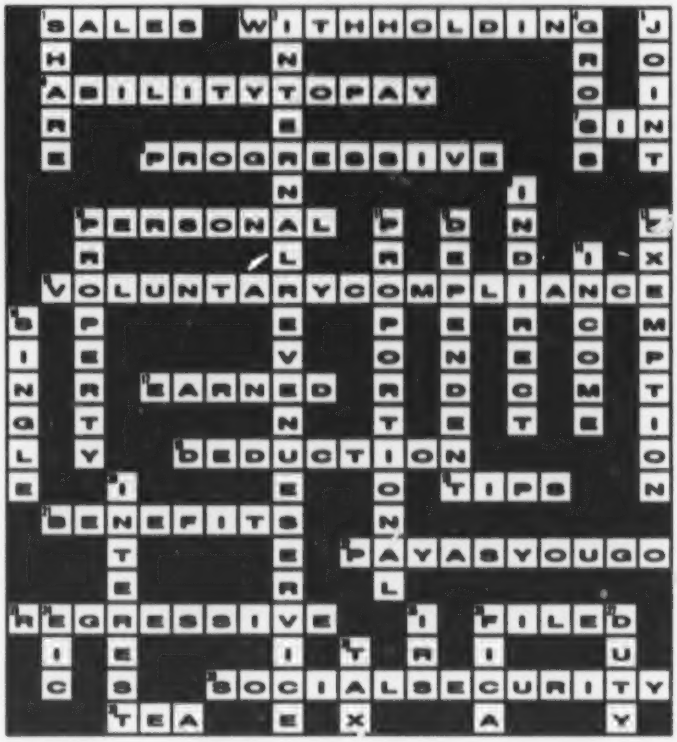
Distribute copies of Student Handout 9.4, "Crossword Puzzle." Have students use any remaining class time to work the puzzle, or suggest they take it home and work it out.

STUDENT HANDOUT 9.4

Distribute copies of Student Handout 9.5, "Lesson Summary." Make sure that any students who were absent receive copies of this and other handouts used with this lesson.

STUDENT HANDOUT 9.5

Answers to crossword puzzle


SALES
WITHHOLDING
ABILITYTOPAY
SIN
PROGRESSIVE
PERSONAL
VOLUNTARYCOMPLIANCE
EARNED
DEDUCTION
TIPS
BENEFITS
PAYASYOUGO
REGRESSIVE
FILED
SOCIALSECURITY
TEA
SHARE
INTERNALREVENUESERVICE
GROSS
JOINT
PROPERTY
PROPORTIONAL
DEPENDENT
INDIRECT
INCOME
EXEMPTION
SINGLE
INTEREST
RIC
TAX
IRA
DUTY

Extending the Lesson

Research or homework assignment

Have students use resources (news clippings, etc.) at a local public library to find out the main revenue and expense categories in a recent city, county, or state budget. (They should not try to digest a detailed budget, but instead look for summaries in news reports or copies of leaders' budget proposals or accounts of legislation passed.)

Have them prepare a pie chart to illustrate the information they find and then compare their pie chart with Student Handout 9.2, "State and Local Revenues and Spending, 1991." Have them report, orally or in writing, how the state or local situation compares with the average represented by the handout. Can they speculate about reasons for the differences?

OR

Have the students find out who are regarded as activists for new programs or facilities in the communities that would probably require a rise in taxes, and who represents the anti-tax groups. Invite these people, together or separately, to explain their views to the class and answer questions.

LESSON 10
TAXES...CAN THEY BE SHIFTED?

PURPOSE

To help students understand that a tax levied on one person or group may ultimately be paid by others.

OBJECTIVES

After viewing the video program and participating in the suggested activities, students will be able to:

- explain that all taxes are ultimately paid by the individual
- define direct tax and indirect tax and differentiate between them

MATERIALS

- Video Program G, "Taxes...Can They Be Shifted?"
- Student Handout 10.1, "Glossary of Key Terms"
- Student Handout 10.2, "Flow of Direct and Indirect Taxes"
- Student Handout 10.3, "Who Pays?"
- Student Handout 10.4, "Tax and Gourmet Chocolates"
- Student Handout 10.5, "Lesson Summary"

KEY TERMS

Direct Tax

A tax that cannot be shifted to others. The federal income tax on individuals is a good example of a direct tax.

Indirect Tax

A tax that can be shifted to others. The one who pays the tax to a government may be able to recover it from others. Business property taxes are examples of indirect taxes.

Tax Shift

The process that occurs when a tax that has been levied on one person or group is in fact paid by others.

Opening the Lesson

Write on the board:

- price of milk
- price of newspaper
- price of a gallon of gasoline

Ask, "How many of these prices or charges include tax?"

Most students will say that only the price of gasoline includes taxes — federal and state excise taxes. In states where food is taxed, the price of milk will also be cited.

Ask, "What are some factors that determine the price of milk?"

Encourage students to think of the various steps involved in getting milk from the farm to the store. Elicit that in addition to supply and demand, the price of milk reflects the overhead costs of the store owner, the dairy, and the farmer.

Ask, "What are some overhead costs of the store owner? The dairy? The dairy farmer?"

Elicit that all three must pay for lease or purchase of a facility, maintenance, equipment, salaries of employees, and taxes — property taxes, payroll taxes, sales or excise taxes on equipment, and corporate (business) income taxes.

Ask, "Where do these business owners get the money to pay their taxes?"

They charge enough for their product to cover their expenses, which include taxes. The customer who buys milk at the store pays a portion of the taxes of each business that has handled it.

Ask the students to name businesses whose taxes are likely to be included in the price of a newspaper.

The newspaper publisher; wire services and syndicates; paper, printing ink, and printing equipment companies, etc.

Point out that the gasoline excise tax — listed on the pump — is not the only tax that is included in the price of a gallon of gasoline. Ask the students what other taxes are reflected in the price.

Property, payroll, and income taxes of the business that owns the service station and of the oil company; excise taxes on the oil tanker trucks involved in transporting the gasoline as well as on the fuel that they used, etc.

STUDENT HANDOUT 10.1

Distribute, or display on an overhead projector, Student Handout 10.1, "Glossary of Key Terms."

State that the students will see a video program about direct and indirect taxes.

Call the students' attention to the term indirect tax and its definition. Explain that the taxes that are hidden in the prices of most products are one example of indirect taxes.

Developing the Lesson

Show the video program (15 minutes). Following the program summary is a set of suggested pause points and discussion questions to ask at each one. Or you may play the program without break and ask all the questions at the end.

Program Summary

Peter Sung, 19, an accounting student at a community college, is moving into his own apartment. Hardly unpacked, he gets a notice that his rent will increase by $40, more than he can afford. His landlady, Mrs. Logan, explains that she has just had a large increase in her property tax, as well as in other costs. She is concerned that she and other landlords in the city, who have to raise rents to cover the tax increase, will lose tenants to nearby communities which have not raised their taxes. She says the rent increase would be higher, but she has postponed certain property improvements and let her gardening service go to lower some of her other expenses.

At his part-time job at a greenhouse, Peter asks his employer, Mr. Perini, for a raise or for more hours. Mr. Perini says that he, too, is having to pay a large property tax increase on his business and on his home. He is trying to figure out how to avoid letting employees go by raising his prices slightly and settling for lower profits. Discussing the situation, Peter says that he realizes now that customers and renters pay indirect taxes, portions of the tax that the business or property owner owes. Business taxes are shifted from the business to customers or employees. Mr. Perini explains that some taxes — income taxes and property taxes on an owner's own residence — can't be shifted.

In class, Peter's teacher of tax preparation shows a video about direct and indirect taxes. Unable to earn money to pay for the increase in rent and unable to find a lower-priced apartment, Peter is on the verge of asking his father to help him. Then his friend Frank points out that since the landlady gave up her landscape service, the apartment grounds are looking unkempt. Peter proposes to work for the landlady for five hours a week, mowing, watering plants, and shoveling snow in winter. She agrees, and offers to pay him enough to cover the increase in rent.

To help the students understand the video program, ask them the following questions, either when you pause the video at the points indicated in brackets, or after the students have seen the complete video program:

[After Peter discusses the rise in rent with his landlady.]

Ask, "How does Mrs. Logan justify raising rents? Does this seem fair?"
She is passing along to tenants her increased costs for utilities and an increase in her own property tax. To minimize the increase in rents, she is cutting back on improvements to the property. If she earned large profits from her rentals, she might be able to absorb the increased costs, but apparently she can't.

[After Peter's discussion with his employer, Mr. Perini.]

Ask, "How has the rise in property taxes affected Mr. Perini and his nursery business?"

Mr. Perini has had to raise his prices slightly and cut back on profits. He has no margin to increase his employees' hours or give raises.

AND

"After talking with Mr. Perini, what does Peter conclude about who really pays business taxes?"

He realizes that since businesses either shift the cost of their taxes to their customers, cut other costs, such as employees' wages and hours, or reduce their profits, which in turn reduces the income of owners and shareholders, all business taxes are ultimately personal taxes.

AND

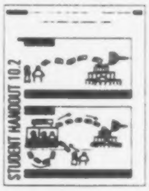
"Peter learns that certain taxes cannot be shifted. What are these?"

Personal income taxes and property taxes on owners' own residences.

[At the conclusion of the video.]

Ask, "How have higher property taxes in Peter's community affected him, even though he owns no property and resolves his immediate difficulty?"

To meet the higher cost of rent, Peter is having to work more hours than he had planned. He will probably find that the price of many items goes up, as store owners have to raise prices to meet higher taxes.



STUDENT HANDOUT 10.3

Distribute, or display on an overhead projector, Student Handouts 10.2, "Flow of Direct and Indirect Taxes," and 10.3, "Who Pays?"

Have the students study the flow chart on Student Handout 10.2 and, working individually, in small groups, or as an entire class, complete Student Handout 10.3, which asks them to classify six types of tax as direct or indirect and list the persons or groups who really pay each tax.

Suggested answers to Student Handout 10.3.

1. Driver's license fees: Direct. Individual driver pays.
2. Sales taxes: Indirect. Customers pay higher prices; employees and owners may earn less.
3. Personal income taxes: Direct. Individual income earner pays.
4. Business property taxes: Indirect. Business owner shifts tax to consumers, and may earn less or pay employees less.
5. Personal property taxes: Direct. Individual property owner pays.
6. Payroll taxes: Indirect. Employees receive lower wages and salaries. Owners will try to charge customers higher prices and may also absorb part of cost through lower earnings and profits.

Concluding the Lesson

Ask the class to consider what would happen if the state government made property taxes illegal for all businesses and commercial properties.

(Remind students that the property tax is usually an important source of revenue for local governments and school systems.)

Divide the class into groups of 4 to 6 students. Have each group list the positive and negative results of such a law and the people or groups who would be for and against it.

A sample list

Positive — Pro

Lower cost of doing business, possibility of higher profits (business owners, shareholders)
Greater margin for wages and salaries (employees)
Possibility of cutting product prices (consumers)
Likelihood of attracting businesses to the state and increasing employment opportunities (state officials, economic development coordinators, labor groups)
Lower rents (tenant groups)

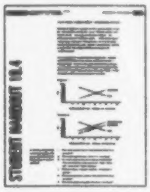
Have the groups compare their lists. In any remaining time, have the students discuss, as a class, whether or not property taxes on businesses can be justified.

Negative — Con

Lower local revenues and cuts in services, especially education (local government and school officials, parents, teachers, students)
Greater burden for other local taxpayers (home owners)
Little commitment of businesses to communities (local officials, Chambers of Commerce, neighborhood associations)
Higher income and sales taxes to make up for lost revenues (individuals, consumers)

Extending the Lesson

Distribute copies of Student Handout 10.4, "Tax and Gourmet Chocolates." This exercise is for students who have strong economics backgrounds, or for use as an activity to challenge those who do not. It is excellent for helping students learn to interpret information from graphs.



Homework assignment

Explain to the students that the handout shows what happens to the supply and demand for boxes of gourmet chocolates when a tax increase forces the manufacturer to raise prices.

Tell the students that they are to study figures 1 and 2, and then write answers to the six questions, using the information in Figure 2.

Answers to questions on Student Handout 10.4:

1. $7.00
2. $7.25
3. $.50
4. Each pays $.25. The price paid by consumers has increased from $7.00 to $7.25, and the price received by producers after paying the tax has fallen to $6.75.
5. 4,000 boxes
6. 3,000 boxes

LESSON 11
TAXES INFLUENCE BEHAVIOR

PURPOSE

To help students understand that taxes and tax reductions influence people's behavior in ways that discourage or encourage certain activities.

OBJECTIVES

After participating in the suggested activities, students will be able to:

- explain how taxes on particular goods and services may discourage certain activities, since people can avoid the direct cost of these taxes by not buying or selling goods or services that are taxed
- explain how exemptions and deductions from general taxes encourage certain activities, since people can decide to engage more in the activities that are exempted

MATERIALS

- Student Handout 11.1, "Glossary of Key Terms"
- Student Handout 11.2, "Sources of Revenue for State and Local Governments" (used, in part, in Lessons 4 and 9)
- Student Handout 11.3, "Lesson Summary"

KEY TERMS

Business Taxes
Taxes levied on businesses by federal, state, or local governments. These may include, in addition to corporate income taxes on earnings and profits, unemployment insurance, workmen's compensation, contributions to social security, and health insurance.

Redevelopment or Enterprise Zone
A government-designated area (usually in a city) that is declared in need of restoration and revitalization. To encourage restoration, tax reductions are available.

Sales Taxes
Taxes on retail products, based on a set percentage of retail cost.

Tariff (Duties; Customs Duties or Import Duties)
Taxes on products imported from foreign countries.

Tax Credits
Amounts, based on certain expenditures, that a taxpayer can deduct from taxes owed.

Tax Deductions
A person's or a business's expenses that can be deducted before determining taxable income.

Opening the Lesson

Distribute copies of Student Handout 11.1, "Glossary of Key Terms." Have the students spend a minute or two reading through the terms and definitions.

Ask students what taxes they have paid recently.

Students may mention sales tax on purchases, excise tax on gasoline or cigarettes, or withholding tax on their paychecks.

STUDENT HANDOUT 11.1

State that both the Federal Government and many state and local governments impose certain taxes to raise revenues and also to discourage or encourage certain kinds of behaviors. Ask for examples.

Taxes on gasoline, tobacco, and alcohol are often imposed with the hope of discouraging consumption. Tax deductions and credits for certain business expenses, such as contributions to employees' health insurance or investment in new equipment are supposed to encourage businesses to make these expenditures. Deductions for donations or gifts to charities are designed to encourage such giving.

Encourage discussion and debate.

Ask students whether they think that "sin taxes" on substances considered bad for people — especially alcohol and tobacco — actually discourage consumption.

Developing the Lesson

Distribute Student Handout 11.2, "Sources of Revenues for State and Local Governments"

Call attention to the following proposals on the handout. (You may want to list them on the board):

- Increase excise tax on petroleum products (gas and heating oil)
- Increase excise tax on tobacco
- Increase excise tax on alcoholic beverages
- Impose an excise tax on non-recyclable containers and wrappings
- Impose an excise tax on restaurant meals and hotel bills
- Establish criteria for enterprise or redevelopment zones and provide special corporate income tax relief for businesses that locate in these areas
- Increase income tax deductions for contributions to public schools, colleges and universities, museums, and charities

STUDENT HANDOUT 11.2

- Offer income tax credits to businesses for paying for education or training of employees
- Offer income tax credit to a parent who cares full time for one or more of his or her preschool children. (This is different from the child care tax credit, which provides credit based on the cost of child care so parents can work.)

Select four to six students and have them sit at a table facing the rest of the class. Announce that they form the Tax and Budget Committee of the state legislature. They are having open hearings at which a number of groups interested in the effects of tax laws can speak.

Ideally, several of the students on the "committee" should be relatively well-informed and articulate, good at posing relevant and probing questions.

Have the rest of the class form four or five groups of two to four members each. Encourage each group to choose one of the listed topics. (You may list other topics that occur to you or to members of the class.)

One member of each group should represent those who are interested in having the tax, deduction, or credit become law. Another member should represent opposing interests, while other students could represent consumer groups or other interested parties arguing on either side.

For the petroleum tax one person might represent petroleum dealers wanting to sell cheap fuel, while another could testify for the highway department needing funds for road building and maintenance. A third person could be an environmentalist arguing that use of nonrenewable fuels should be discouraged, or a spokesman for a consumer group saying that the tax would be unfair to low-income people who drive long distances to work or heat their homes with oil.

Give the students a few minutes to think about and jot down arguments that they would use in their adopted roles.

Circulate among the teams and make sure they understand the appropriate roles they might play.

Similarly, tobacco and alcoholic beverage dealers, medical professionals, insurance representatives, and state police concerned with the physical and economic effects of these substances could discuss the alcohol and tobacco taxes.

The container industry would fight the non-recyclables tax while environmental groups and local waste districts would support it.

The hotel and restaurant tax would be supported by local governments that claim that tourists use local services but pay no taxes to support them. The hotel and restaurant owners would discuss the amount that tourists contribute to local economies.

Enterprise zones would be supported by local chambers of commerce, economic development groups, and representatives of low-income districts and the unemployed. They might be opposed by representatives of businesses in other areas who argue that new businesses would offer an unfair advantage.

Representatives of public educational institutions, churches, art museums, and charities could be opposed by those arguing for separation of church and state, or those concerned about falling revenues and claiming "the state can't afford it."

A training tax credit for business would be supported by vocational schools and training institutes that want businesses to use their services as well as by businesses that have to train many workers to adapt to new processes or equipment. It would be opposed by those who feel that too many taxes already fall on individuals and property owners, and businesses don't pay their fair share.

The parent child-care credit might be supported by those concerned with the welfare of women and children, but it might be opposed by day-care providers and women's rights groups who see it as a way of keeping women out of the work force.

Give the members of each group up to five minutes to present opposing arguments before the committee. Committee members should be encouraged to ask questions and challenge statements. As presentations are made about each tax, deduction, or credit, members of the committee should take notes and notice the information about the specific tax, deduction, or credit in the handout. After all the presentations have been made, the committee should spend a few minutes deciding which taxes, deductions, or credits to recommend.

Concluding the Lesson

Have the Tax and Budget Committee present its recommendations. (They could write them on the board.) Ask the class to evaluate the total proposed package. What are some likely effects of the package?

The committee doesn't need to put a precise figure on its recommendations, but it should indicate whether it proposes to raise a certain tax "slightly" or "substantially," and provide similar qualifications for its proposals for deductions or credits.

Students might point out that if taxes are too high on gasoline, tobacco, or alcohol, consumption might fall (a positive effect), but then revenues will fall also (a negative effect).

Similarly, the proposed credits and deductions might increase jobs and income (and increase the income tax base) but taxpayers and businesses will have lower tax bills, thus risking a possible decline in revenues.

STUDENT HANDOUT 11.3

Distribute Student Handout 11.3, "Lesson Summary," to all students. Make sure that any who were absent receive this and the other two handouts.

Extending the Lesson

Homework and research assignment

1. Have students choose two items, one domestic and the other imported and subject to a tariff. (Cars, VCRs, television sets, or laptop computers might be good examples.) Have them select models of each that are as comparable as possible in terms of size, power, and other features and then call dealers or study catalogs and ads to compare prices. Have them report their findings, orally or in writing. Is the price difference enough to discourage people from buying the imported model?

2. Have students interview real estate agents or lending institutions to learn about average housing costs and local mortgage rates and payment schedules, including the proportion of each payment that goes for interest. Can a couple actually save money if they make mortgage payments and get a deduction for part of them (the interest) instead of paying average local rent for a two-bedroom apartment? Is the saving enough to encourage people to think about investing in a house?

LESSON 12
TAXES INVOLVE CONFLICTING GOALS

PURPOSE

To help students understand that taxation involves a compromise of conflicting goals, and that people who have the same income may not pay the same amount in taxes.

OBJECTIVES

After participating in the suggested activities, students will be able to:

- give an example in which the goal of raising revenue conflicts with the goal of reducing taxes to encourage certain activities
- explain that for a given level of government services, lower taxes for some groups (or activities) implies higher taxes for other groups (or activities)
- explain that, as a result of special tax treatment of certain activities and different sources of income, people with the same income may pay different amounts of taxes

MATERIALS

- Student Handout 12.1, "Glossary of Key Terms"
- Student Handout 12.2, "Case Studies"
- Student Handout 12.3, "Lesson Summary"

KEY TERMS

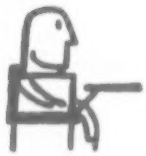
Horizontal Equity
The concept that people in the same income group should pay the same amount of taxes. "Equals should be taxed equally."

Tax Credits
Amounts, based on certain expenditures, that a taxpayer can deduct from taxes owed.

Tax Deductions
A person's or a business's expenses that can be deducted before determining taxable income, which is always less than total income and is figured according to IRS rules.

Tax Exemptions
A part of a person's total income on which no tax is imposed.

Vertical Equity
The concept that people in different income groups should pay different amounts of taxes, or different percentages of their incomes as taxes. "Unequals should not be taxed the same amount or the same percentage."



Opening the Lesson

Distribute Student Handout 12.1, "Glossary of Key Terms," and ask students to read the terms and definitions silently.

STUDENT HANDOUT 12.1

When the terms deductions, exemptions, or credits come up in discussions, refer to the glossary and make sure students understand the meanings of these terms.

Permit free discussion.

Is it possible for two families or two businesses to have identical incomes but pay different income taxes?

Some students may suggest that deductions, exemptions, or tax credits may permit one family to pay lower taxes than another.

Similarly, nonprofit status may exempt one business from taxes that another business pays.

Write on the board:

	Sanchez	Rodriguez
taxes	$1,474	$2,074
income	$25,000	$25,000
dependents	2	0

Point out that the Rodriguez family pays more income tax than the Sanchez family.

Ask, "Why are the Sanchez family's taxes lower than the Rodriguez family's?"

Elicit that the Sanchez family includes dependents and the Rodriguez family does not.

Ask, "Is there anything else that the Sanchez family might claim that would lower their taxes?"

Add to the table on the board as students make suggestions:

	Sanchez	Rodriguez
taxes	$1,474	$2,074
income	$25,000	$25,000
dependents	2	0
mortgage interest	yes	no (renting)
gave to charities	yes	no

Students might suggest that the Sanchez couple itemize deductions, claiming such things as a mortgage interest deduction or charitable deductions and also claim the child-care credit, while the Rodriguez couple does not.

Have the students look at the definitions of horizontal equity and vertical equity in the glossary. Ask, "Is the tax situation of the Sanchez and Rodriguez families an example of horizontal equity?"

No, although they have the same income, the two families are not taxed equally.

Ask, "Is this fair? Why does tax law help people with children who have bought a home? Why does it place a heavier burden on people who have no children and don't make mortgage payments?"

Elicit that dependent children increase a family's expenses. It is thought to be in a government's interest that families be helped to provide good care for their children.

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The building and sale of houses is an important source of jobs and a stimulus to the economy. Property owners tend to have a greater stake in their communities than non-owners. For these reasons, government tax policy has traditionally encouraged home buying by offering tax deductions for the payment of interest on mortgages and real estate taxes. Similarly, encouraging charities that provide services may relieve some of the burden on governments. Tax deductions encourage people who itemize deductions on their tax returns to contribute to charities.

Developing the Lesson

Distribute Student Handout 12.2, "Case Studies."

STUDENT HANDBOOK 12.2

Divide the class into four teams. Assign each team one of the four case studies.

Write on the board,

"Who pays less?"
"Who, if anyone, pays more?"
"What are the disadvantages of the present tax situation?"
"What are the advantages of the present tax situation?"
"Is the present situation equitable?"
"Should the appropriate lawmaking body make any changes in the current situation?"

Ask the students to read the case study assigned to their team and then spend about 10 minutes analyzing the scenario and brainstorming answers to these questions in relation to it. A team recorder should keep notes.

The scenarios make clear who profits by the tax law.

It is less clear who pays more. If revenues are to remain steady, businesses and families without tax exemptions, credits, or deductions may have to pay more. In some cases, however, revenues may be falling. Then lawmakers need to decide whether to cut services; rescind the exemptions, credits, or deductions; or raise taxes on those who are not eligible for them.

When the teams have finished brainstorming, ask a member of each team, in turn, to read its assigned case study and then present the team's analysis of the situation. After each presentation, the other team members and the class should be permitted to ask questions and add comments.

1. Athenium College, a church-affiliated school, enrolls 15,000 students and employs a staff of 2,500 and a faculty of 2,000. The campus, in the middle of a town of 50,000, contains class and administrative buildings, dormitories, housing for staff and faculty families, parking lots, and athletic facilities. No property taxes are paid on these facilities because the college is a tax-exempt nonprofit institution. Many businesses have opened around the campus, which contracts for its own trash disposal and has its own small police force, but draws on city police for large sports events. Supported by a church, the college's tuition is low. It is exempt from business income tax and state sales tax on its purchases. It is currently engaged in a major building program. Construction equipment has damaged streets. City revenues have been falling for several years, and street maintenance has been reduced.

The conflict here is between the benefits the college brings to the community and the loss to the tax base caused by its nonprofit status. Athenium College owes its prosperity to its tax-exempt status and its support from a church, which is also tax-exempt and benefits from tax-deductible contributions. As a result, its low tuition attracts students and encourages it to continue to grow and expand. The town benefits from the employment the college provides and from the expenditures of the students it draws, who have supported many profitable, tax-paying businesses. However, the college puts a strain on many city services, especially schools and streets, because the property tax base that usually supports them is reduced by the presence of the nonprofit college. Property owners and businesses may need to pay more to keep up the necessary level of services.

2. Mr. and Mrs. Green, a retired couple, have $100,000 in income each year from their retirement accounts (IRAs), social security, and interest payments from their large investment in tax-free municipal bonds. Their neighbors, the Whites, are also retired. They, too, have a yearly income of about $100,000, but theirs is almost entirely derived from dividends on stock in the company for which Mr. White worked for many years. They also have some social security and pension income. The Whites' federal income taxes are almost twice the amount of the Greens' because none of the sources of the Whites' income is tax-exempt. Congress is considering limiting the ability of wealthy taxpayers to avoid taxes by making certain investments.

The conflict here is between the fairness principle, which suggests that people with equal incomes should pay similar taxes, and the need to encourage people to invest in public works, such as sewer and reservoir projects or transportation projects. Most of these projects are funded by bonds, instruments that permit cities or towns to borrow money. The bonds permit cities to finance needed projects without raising taxes, and the interest provides a steady income to investors like the Greens.

3. Mr. and Mrs. Smith, whose joint income is $33,000, claim Mrs. Smith's mother, who is disabled, seven children, and a grandchild as dependents. They also itemize deductions, including their mortgage interest payments. Five of the children work part-time, and the grandchild attends a local Head Start class. Six children attend public schools or colleges, and one of them has a federal student loan. The eldest is in a federal job training program. One of the younger children, who was in an accident, participates in a federally funded remedial program. Exemptions and deductions result in a substantial tax refund for the Smiths each year. The Joneses, who have no dependents and rent a house nearby, earn $33,000, but they get no refund. Legislators in Washington point to the federal deficit and wonder whether to cut student loans and job training programs.

In this case there is a conflict between the ideal of fairness and horizontal equity (all taxpayers with similar incomes should be taxed similarly) and the public interest in supporting families and helping more citizens become productive. The Smiths are able to support their children and mother on their earnings but might not be able to do so if taxes took a large bite from their paychecks. If the Smiths could not provide the support, taxpayers, through various public welfare agencies, might need to help. Supporters of such programs argue that Head Start, the student loan program, and the job training program are helping the young Smiths prepare for high paying jobs, which will enlarge the country's income tax base and make the country's businesses more successful and competitive. Already the Smith children who are working are paying some tax on their part-time jobs. By providing support to the child who fell behind in school as the result of an accident, the government attempts to make sure that she too has a chance to become a competent wage-earner someday. The Joneses pay higher taxes, but if they did not, and if falling tax revenues required the cutting of programs, they might end up being assessed more in local taxes to support unemployment relief or local welfare agencies. The programs that help the Smiths are designed to raise the productivity and prosperity of the country, which will help the Joneses as well. Lawmakers who do not support such programs argue that when recession or other economic conditions lead to lower federal revenues, lawmakers must decide whether to take immediate steps to correct the situation—by cutting back on school loans, job training, and remedial programs—or to continue to invest in human resources in hopes of ensuring a more prosperous future.

4. Mr. Minh owns a successful printing business, called the Minh Corporation. His business employs 25 people and has been paying about $12,000 a year in federal business income taxes. When Congress passed legislation providing for an investment tax credit (permitting businesses to deduct part of the cost of new equipment from their tax liability), Mr. Minh decided to add to his plant, install a new high-technology printing press, and hire five more employees. The investment tax credit legislation was challenged by legislators who argued that the country could not afford to grant more tax credits until the deficit was reduced. Mrs. Shiraz, who owns a competing business, complains that Mr. Minh received an unfair advantage.

The goal of treating taxpayers fairly competes with the goal of making the country more productive. Small business owners like Mr. Minh are thought to be the basis of much of the country's prosperity—and hence, its revenues. In addition to his business taxes, he and his employees pay personal income taxes and property taxes. Supporters argue that offering such businessmen credits for investment and expansion may lower revenues in the short run, but they may increase the strength of a very important tax base in the long run. With his new press, Mr. Minh will be able to compete effectively not only with Mrs. Shiraz's company, but also with those overseas as well. In principle, Mrs. Shiraz could have taken advantage of the same tax credit, but if she had done so, revenues would have been further reduced. Lawmakers must decide whether the country can afford short-term reductions in revenue in order to increase future revenues.

Concluding the Lesson

Reconvene the class into a single group.

Ask an open-ended question such as, "What do you think about putting various exemptions, credits, and deductions in the tax code? Are they a good idea? Is it justified to depart from strict principles of horizontal and vertical equity?"

Permit free discussion, but try to guide students to recognize that every attempt to encourage certain activities through the tax code has trade-offs and affects revenue and a government's capacity to offer services. Citizens and their representatives need to be clear about what they value and what their priorities are.

Extending the Lesson

Research or homework assignment

Have students interview local officials concerned with revenues and budgets (city or county council member, member of local economic development commission). Have the students define the issues involved and identify the goals in conflict. Ask the students to report, orally or in writing, what they have learned about ways their local community tries to attract and support business through tax policies. What effect are these policies likely to have on the city's tax base and revenues?

This is a glossary of all tax terms used in this package.

glossary

Ability To Pay
A criterion of tax fairness that people with different amounts of wealth or different amounts of income should pay different amounts of taxes. Wealth may include assets and property such as houses, cars, stocks, bonds, savings accounts, or valuables. Income includes wages, rents, interest, profits, or other payments.

Adjusted Gross Income
Total income reduced by certain adjustments such as the IRA deduction and the deduction for alimony paid.

Benefits Received
A criterion of tax fairness that people should pay taxes in rough proportion to the benefits they receive from government goods and services.

Business Taxes
Taxes levied on businesses by federal, state, or local governments. These may include, in addition to corporate income taxes on earnings and profits, unemployment insurance, workmen's compensation, contributions to social security, and Medicare insurance.

Credits
A direct reduction of the tax owed. Credits may be allowed for purposes such as child care and the earned income credit for low-income taxpayers.

Dependent
A person who relies on someone else for support. A dependent generally may not be the taxpayer or his or her spouse. A taxpayer may claim an exemption for a dependent if the dependency tests are met.

Direct Tax
A tax that cannot be shifted to others. The federal income tax is a good example of a direct tax.

Dividends
Ordinary dividends are a corporation's distributions to its shareholders from its earnings and profits.

Earned Income
Includes wages, salaries, tips, and net earnings from self-employment and other income received for personal services.

Earned Income Credit
A refundable credit for low-income workers with children. This credit may be paid to the worker even if no income tax was withheld from the worker's pay. To receive the earned income credit, a taxpayer must file a tax return.

Excise Taxes
Taxes on the sale or use of specific products or transactions.

Exempt (from Withholding)
Free from federal income tax withholding requirements by meeting certain income, tax liability, and dependency criteria.

Exempt (from Tax Liability)
Tax law provides for a set amount which taxpayers can claim for themselves, their spouses, and eligible dependents. The total of these amounts is subtracted from adjusted gross income before any tax is computed on the remaining income.

File a Return
To file means to mail or otherwise convey to a regional IRS Service Center the appropriate IRS forms)—the return—on which a taxpayer has entered information about income and tax liability.

Filing Status
Based on taxpayer's marital status and other factors, the filing status determines the tax bracket and rate at which income is taxed.

Form W-4 (Employee's Withholding Allowance Certificate)
A form that helps an employer determine how much to withhold from an employee's paycheck for federal income tax purposes.

Formal Tax Legislation Process
The strict constitutional steps (involving Congress and the president) that a proposed tax must pass through before it becomes law.

Gross Income
Money, goods, and property you received that must be included in taxable income.

Horizontal Equity
The concept that people in the same income group should pay the same amount of taxes. "Equals should be taxed equally."

Income Taxes
Taxes on income, both earned (e.g., salaries, wages, tips, commissions) and unearned (e.g., interest, dividends). Income taxes can be levied both on individuals (personal income tax) and businesses (business and corporate income taxes).

Indirect Tax
A tax that can be shifted to others. The one who pays the tax to the government may be able to shift it to others. Business property taxes are examples of indirect taxes.

Informal Tax Legislation Process
Individuals and interest groups expressing and promoting their opinions about tax legislation.

Interest Income
Income received from savings accounts or from lending money to someone else.

Payroll Taxes
Taxes collected from employers and employees to finance specific programs; levied on earned income such as wages, salaries, and self-employment earnings.

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Personal Income Tax
A tax based on the amount of taxable income that people receive annually. Taxable income is less than total income because of exemptions and tax deductions.

Progressive Tax
A tax that takes a larger percentage of income from high-income groups than from low-income groups.

Property Taxes
Taxes on property, especially real estate, and also boats, automobiles (often paid along with license fees), recreational vehicles, and business inventories.

Proportional Tax
A tax that takes the same percentage of income from all income groups.

Public Goods and Services
A public good is one that cannot be withheld from those who don't pay for it, and one that may be "consumed" by one person without reducing the amount of the product available for others. Examples include national defense, street lights, and roads and highways. Public services include welfare programs, law enforcement, monitoring and regulating of trade and the economy, and education.

Redevelopment or Enterprise Zone
A government-designated area (usually in a city) that is declared in need of restoration and revitalization. To encourage restoration, tax reductions may be available.

Regressive Tax
A tax that takes a larger percentage of income from low-income groups than from high-income groups.

Sales Taxes
Taxes on retail products, based on a set percentage of retail cost.

Schedule
A form on which taxpayers list ("itemize") specific sources of income, or specific expenses for which they claim deductions or credits.

Standard Deduction
An amount, fixed by law and based on filing status and age, which taxpayers may deduct from their adjusted gross income before tax is determined.

Tariff (Duties; Customs Duties or Import Duties)
Taxes on products imported from foreign countries.

Tax Credits
Amounts, based on certain expenditures, that a taxpayer can deduct from taxes owed.

Tax Deductions
A person's or a business's expenses that can be deducted in determining taxable income.

Tax Exemptions
A part of a person's total income on which no tax is imposed.

Tax Liability (or Total Tax Bill)
The amount of tax that must be paid. Taxpayers meet (or pay) their federal income tax liability through withholding, estimated tax payments, and payments attached to the tax forms they file with the government.

Tax Shift
The process that occurs when a tax that has been levied on one person or group is in fact paid by others.

Tax Withholding
Money that an employer takes from an employee's paycheck and that is used to pay part or all of the employee's taxes.

Taxable Income
The income on which tax is computed.

Taxes
Required payments of money to governments that are used to provide public goods and services for the benefit of the community as a whole.

Transaction Taxes
Taxes on economic transactions, such as the sale of goods and services. Such taxes can be based on a set percentage of the sales value (ad valorem—sales taxes) or they can be a set amount on physical quantities ("per unit"—gasoline taxes).

Vertical Equity
The concept that people in different income groups should pay different amounts of taxes, or different percentages of the incomes as taxes. "Unequals should be taxed unequally."

Voluntary Compliance
A system of compliance that relies on individual citizens to report their income freely and voluntarily, calculate their tax liability correctly, and file a tax return on time.

Withholding ("Pay-as-you-earn" Taxation)
Money that employers withhold from employees' paychecks. This money is deposited for the government. It will be credited against the employees' tax liability when they file their returns. Employers withhold money for federal income taxes, federal social security taxes, and state and local income taxes in some states and localities.

Withholding Allowance
Claimed by an employee on Form W-4. An employer uses the number of allowances claimed, together with income earned and marital status to determine how much income tax to withhold from wages.

UNDERSTANDING Taxes
SOFTWARE USER'S GUIDE

Table of Contents

Getting Started

3 **Welcome to the Understanding Taxes Software Supplement**
3 **Required equipment and materials**
3 IBM
3 Apple
4 Other materials
4 **Setup and installation**
4 Making backups
4 Hard disk installation
5 **Starting up**
5 From a floppy disk—Apple
5 From a floppy disk—IBM
5 From a hard disk
6 **About the program**
6 The basics
6 Escape
6 Help
6 Status line
6 Main menu
7 Index
7 Using your keyboard
7 Working with your computer

The Main Menu Activities

8 **Introduction**
8 **Tax Withholding and Form W-4**
8 What you need to begin
9 Learning about Form W-4
10 **From Form W-4 to Form W-2**
10 Learning about Form W-2
11 **Filing Your Income Tax Return**
11 What you need to begin
12 **Completing Form 1040EZ**
12 What you need to begin
12 Learning to complete Form 1040EZ
12 Form 1040EZ for a married couple
13 Form 1040EZ for a single person
14 Completing your Form 1040EZ
15 **Mastery Self-Test**
15 **Quit**

Getting Started

Welcome to the Understanding Taxes Software Supplement

Your instructor may have already introduced you to Form W-4, Form W-2 and the 1040 series in Unit 1 of Understanding Taxes. In Unit 2, you will learn more about these forms and how to use them. Using the Understanding Taxes Software Supplement will help you learn this material. When you have completed all the parts of the program and studied Unit 2, you will be able to do these tasks:

- read and understand your own Form W-2
- make better decisions about how to fill out a Form W-4 for your employer
- decide whether you should use Form 1040, 1040A or 1040EZ when you file your tax return
- complete and file Form 1040EZ

This program is easy to use, and you control it at all times. You can choose to study the material by reading through and doing the activities in any of the parts or by studying particular topics that you choose from the index. You can also check your progress at any time by taking a self-test. As you work with the program, you will read about taxes, answer questions, key information into the computer and fill out tax forms. The program will help you do all the activities as you learn more about the Federal tax system.

Required equipment and materials

IBM

To run the IBM® version of the Understanding Taxes Software Supplement, you will need

- **IBM or compatible personal computer** with at least 256K of memory with 211K available
- a floppy disk drive
- **MS-DOS version 2.1** or later
- Color Graphics Adapter (CGA) and compatible monitor
- **Understanding Taxes Software Supplement** floppy disk

Apple

To run the Apple® version of the Understanding Taxes Software Supplement, you will need

- **Apple IIe, IIc or IIgs®** computer with 64K of memory
- a floppy disk drive
- **Understanding Taxes Software Supplement** floppy disk

Other materials

At different places in the program, you will need other materials:

- Form W-4
- Form W-2
- Form 1040EZ
- tax table
- pen or pencil and scratch paper
- information about your own tax situation, such as estimates of your gross income, tax credits or deductions

The program and this user's guide list necessary materials at the beginning of each part in the program. Before you begin to work with a part, make sure you have all the materials. Gathering everything together ahead of time will make your work easier and faster. Your instructor or a public library can provide copies of the tax forms.

Setup and installation

Making backups

The Understanding Taxes Software Supplement is available for both IBM-compatible or Apple IIe, IIc or IIGS computers. Make sure you use the version of the program that matches your computer system.

No matter what computer system you use, it is a good idea to make a back-up copy of your Understanding Taxes Software Supplement disk. Then, store the original in a safe place and use the copy. Your instructor may have already done this for you.

Hard disk installation

If you want to run the program from a floppy disk, go on to the instructions titled "Starting up" on page 4 of this guide. If you want to use the software from a hard disk, follow the instructions below for installing the software on a hard disk. Your instructor may have already installed the software for you.

1. Create a subdirectory on your hard disk that will hold the program files for Understanding Taxes Software Supplement.

2. Insert the Understanding Taxes disk into a disk drive and close the drive door.

3. Use a file-copying command or utility to copy all the files from the floppy disk to your hard disk.

   If you are using an **Apple IIe, IIc or IIGS** computer, you may not need to copy the operating system file called **PRODOS**.

4. If you are using an **Apple IIe, IIc or IIgs** computer, remove the disk and flip it over. Insert the disk back into the disk drive and close the drive door. Copy the files from the second side of the floppy disk to your hard disk also.

5. When you have finished copying all the files, remove the floppy disk and put it away for safekeeping.

Starting up

[redacted]

From a floppy disk

To start up the Understanding Taxes Software Supplement from a floppy disk on an Apple IIe, IIc or IIGS computer, follow these instructions.

1. Insert the Understanding Taxes Software Supplement floppy disk in a disk drive and close the drive door.
2. Turn on your computer and monitor.
3. When you see the title screen, you are ready to begin.

[redacted]

From a floppy disk

To start up the Understanding Taxes Software Supplement from a floppy disk on an IBM or compatible personal computer, follow these instructions.

1. If your disk operating system (DOS) is on a floppy disk, insert that disk in a disk drive and close the drive door.
2. Turn on your computer and monitor.
3. **When the prompt appears on screen, insert the Understanding Taxes Software Supplement** floppy disk in a disk drive and close the drive door.
4. Make sure the prompt indicates that you are on the correct floppy disk drive. If not, move to the correct floppy disk drive.
5. **Type TAXES** to start the program. When you see the title screen, you are ready to begin.

From a hard disk

To start up the Understanding Taxes Software Supplement from a hard disk, follow these instructions.

1. Turn on your computer and monitor.
2. Move to the directory or subdirectory that holds the Understanding Taxes program files.
3. If you are using an **Apple IIe, IIc or IIgs** computer, run the program file **START.SYSTEM**. If you are using an **IBM or compatible** computer, start the program by typing **TAXES** at the prompt.
4. When you see the title screen, you are ready to begin.

About the program

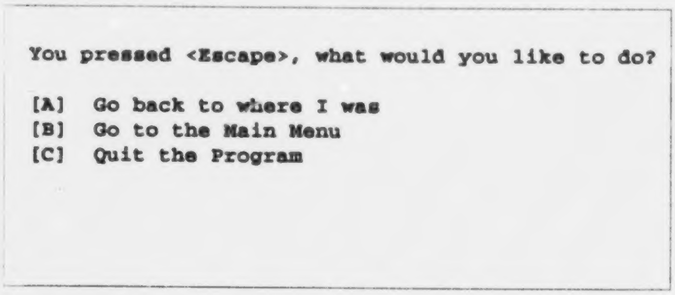
The basics

Most of the work you will do in the program begins at the **Main menu**. You choose activities from this list. On the Main menu and throughout the program, check the **status line** at the bottom of your screen to see what your next step should be or to see what else you can do in the program. You can always get help by pressing **H**, or you can change topics quickly by pressing **I** to see the index. And if you make a mistake, want to change topics or need to leave the program quickly, don't worry. You can return to the Main menu or quit the program at any time by pressing the **Escape** key. Here's more information about these topics.

Escape

Press **Esc** at any time to change topics or quit.

The Escape key is located in the upper left corner of your keyboard and may be labeled "Esc." This key is your "escape hatch" no matter where you are in the program. If you make a mistake, want to change topics or need to leave the program quickly, you can press the Escape key to see the following list of choices.



```
You pressed <Escape>, what would you like to do?

[A]  Go back to where I was
[B]  Go to the Main Menu
[C]  Quit the Program
```

Use the Up and Down Arrow keys to highlight your choice and then press Enter/Return.

Occasionally, the program will put other messages in a box on the screen. These messages may ask you for help with the disk drives, for example. You won't see these messages often, and if you press the Escape key while one of these boxed messages is on the screen, the program will probably quit automatically. All you need to do then is restart the program.

Help

Press **H** for help at any time.

If you need to know more about what you can do in the program or how to do an activity, press **H** for help at any time. The information in the help box will give you more ideas about what your next step should or could be. A reminder to press H for help is always located near the lower left corner of your screen, in the status line.

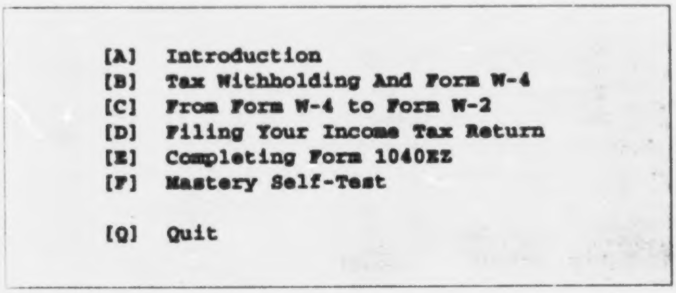
Status line

Check the status line for the next step.

Look first at the status line near the bottom of your screen whenever you want to know what to do next. The status line will always be there, no matter where you are in the program. The middle sentence of the status line tells you what key or keys to press next in order to continue with the current activity.

Main menu

The Main menu is your home base. You can enter any of the primary parts of the program from the Main menu, and you can take a self-test or quit the program from this menu also.



[A] Introduction
[B] Tax Withholding And Form W-4
[C] From Form W-4 to Form W-2
[D] Filing Your Income Tax Return
[E] Completing Form 1040EZ
[F] Mastery Self-Test

[Q] Quit

Read the Main menu screen carefully. There are six topic areas, or parts, in the Understanding Taxes Software Supplement. You can work with a part in two ways:

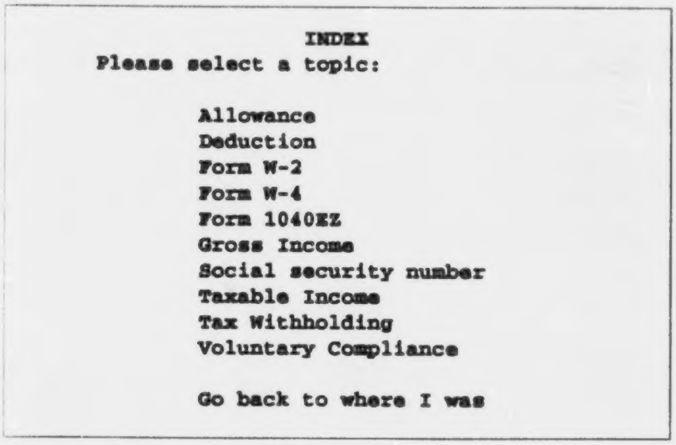
- To see a short description of a part, simply press the letter next to it. This description tells you what topics are covered in the part and describes some of the activities you will do.
- To study the topics and do the activities in a part, use the Up and Down Arrow keys to highlight the letter next to the part you want to study. Press Enter/Return to begin work in that part.

Index

Press **I** to see index

Another way to work with any of the parts is to use the index, a list of topics covered in the Understanding Taxes Software Supplement.

At the right end of the status line is a reminder that you can press **I** to see the index.



INDEX
Please select a topic:

Allowance
Deduction
Form W-2
Form W-4
Form 1040EZ
Gross Income
Social security number
Taxable Income
Tax Withholding
Voluntary Compliance

Go back to where I was

Use the Up and Down Arrow keys to highlight a topic you want to study. The program will take you to one of the parts that discusses the topic.

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Using your keyboard

You have read above about some of the keys you can use in this program:

- Esc
- Enter/Return
- H for help
- I for index
- Up and Down Arrow keys

You will also use the Left and Right Arrow keys, the Space bar and the Backspace/Delete key as you move through the program. Make sure you can find all of these keys on the keyboard.

Working with your computer

If you have difficulty making the software run the way you expect it to, make sure you can answer yes to each question on this checklist.

- Is your monitor turned on?
- Are the cables that link your disk drives and monitor to your computer correctly and firmly connected?
- If you are running the program from a floppy disk, is the disk in the drive and is the drive door closed? Remove the disk and then put it back in the drive. Close the drive door and try again.
- If you are running the program from a hard disk, are all program files copied correctly from the floppy disk? You may want to recopy the files and try again.
- **If you are running the program from a floppy disk on an Apple IIe, IIc or IIgs** computer, is the correct side of the disk available for the computer to use? A message on your screen will tell you if you need to flip the disk over.

The Main Menu Activities

After you see the Understanding Taxes title screen, you are ready to begin working. Read the next two introductory screens carefully, pressing the Space bar to move to the next screen. Soon you will reach the Main menu. From here, you begin working with all the material in the Understanding Taxes Software Supplement.

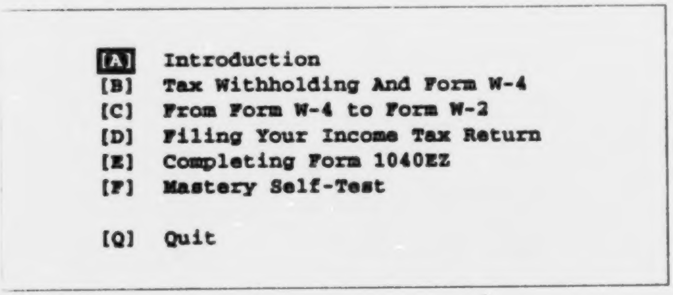
As you begin, remember that you cannot go back into the middle of a part once you have left it or quit the program. Try to complete a whole part before you stop.

In this part of the user's guide, you can follow along as you study each part. Remember, to study a part in detail, use the Up and Down Arrow keys to highlight the letter next to the part you want to study. Press Enter/Return to begin work.

Introduction

Read the "Introduction" to learn more about Understanding Taxes Software Supplement and how it fits in with the other concepts you are learning in the Understanding Taxes Program. You may find that you return to the "Introduction" later in the program. It is often helpful to remind yourself of what you have learned so far and what topics you have not yet studied in your program.

1. From the Main menu, use the arrow keys to highlight choice A, "Introduction." Press Enter/Return to select it.


[A] Introduction
[B] Tax Withholding And Form W-4
[C] From Form W-4 to Form W-2
[D] Filing Your Income Tax Return
[E] Completing Form 1040EZ
[F] Mastery Self-Test
[Q] Quit

2. Read all the information in this part carefully.
3. When you are finished with the material in this part, return to the Main menu to study another part or quit the program.

Tax Withholding and Form W-4

Your Federal income tax helps pay for the services and programs the government provides. To understand how the tax system works, you need to know about several important concepts, including **gross income, pay-as-you-go tax withholding, and voluntary compliance**. This part of the software explains these concepts and helps you fill out an important tax withholding form—Form W-4.

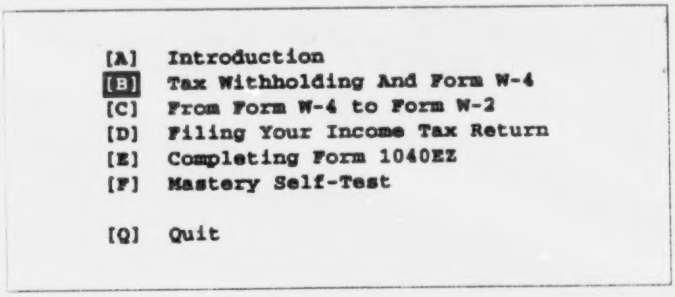
What you need to begin

- Form W-4
- pencil and scratch paper
- your Social Security number
- estimates of your gross income, tax credits and any deductions

If you don't have all this information, you can still do all the activities in this part. You can practice with information that you make up.

Learning about Form W-4

1. From the Main menu, use the arrow keys to highlight choice B, "Tax Withholding and Form W-4." Press Enter/Return to select it.



```
[A]  Introduction
[B]  Tax Withholding And Form W-4
[C]  From Form W-4 to Form W-2
[D]  Filing Your Income Tax Return
[E]  Completing Form 1040EZ
[F]  Mastery Self-Test

[Q]  Quit
```

2. Read all the information about the tax system and tax withholding carefully. Answer each question.

   Remember, you can choose an answer by either typing the letter beside the answer or using the arrow keys to move the highlight to your answer. Then press Enter/Return. Continue by following the instructions at the bottom of your screen until you reach the section titled "Completing Form W-4."

3. As you begin the section titled "Completing Form W-4," familiarize yourself with the three parts of this important form:

   - step-by-step instructions
   - Personal Allowances Worksheet
   - Employee's Withholding Allowance Certificate

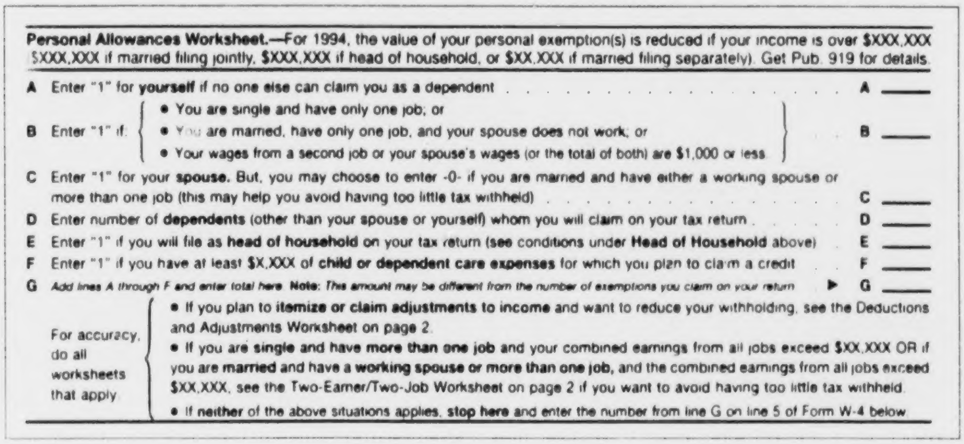
   Fill in your name, address and Social Security number on the "Employee's Withholding Allowance Certificate" near the bottom of the first page. It looks like this.

4. Continue to read about the first important question Form W-4 helps you answer: Are you exempt from tax withholding?

   Answer each question to find out if you are exempt from tax withholding and need to fill out line 7 of your "Employee's Withholding Allowance Certificate."

5. **Whether or not you are exempt from tax withholding, you can continue to learn about a second important question: How many "allowances" should you claim?**

As you answer the questions in this section, you will fill in the "Personal Allowances Worksheet." It looks like this.



Personal Allowances Worksheet.—For 1994, the value of your personal exemption(s) is reduced if your income is over $XXX,XXX $XXX,XXX if married filing jointly, $XXX,XXX if head of household, or $XX,XXX if married filing separately). Get Pub. 919 for details.

A Enter "1" for **yourself** if no one else can claim you as a dependent . . . . **A** ______

B Enter "1" if:
- You are single and have only one job; or
- You are married, have only one job, and your spouse does not work; or
- Your wages from a second job or your spouse's wages (or the total of both) are $1,000 or less.

B ______

C Enter "1" for your **spouse.** But, you may choose to enter -0- if you are married and have either a working spouse or more than one job (this may help you avoid having too little tax withheld) . . . . **C** ______

D Enter number of **dependents** (other than your spouse or yourself) whom you will claim on your tax return . . . . . **D** ______

E Enter "1" if you will file as **head of household** on your tax return (see conditions under **Head of Household** above) . **E** ______

F Enter "1" if you have at least $X,XXX of **child or dependent care expenses** for which you plan to claim a credit . . **F** ______

G *Add lines A through F and enter total here.* ***Note:*** *This amount may be different from the number of exemptions you claim on your return* ▶ **G** ______

For accuracy, do all worksheets that apply.
- If you plan to **itemize or claim adjustments to income** and want to reduce your withholding, see the Deductions and Adjustments Worksheet on page 2.
- If you are **single and have more than one job** and your combined earnings from all jobs exceed $XX,XXX OR if you are **married** and have a **working spouse or more than one job,** and the combined earnings from all jobs exceed $XX,XXX, see the Two-Earner/Two-Job Worksheet on page 2 if you want to avoid having too little tax withheld.
- If **neither** of the above situations applies, **stop here** and enter the number from line G on line 5 of Form W-4 below.

Answer each question and read the information in this section to decide which allowances you should claim and how you should fill out line 5 of your "Employee's Withholding Allowance Certificate."

6. After you have decided which allowances you should claim, you can learn about a third important question: Should you have any additional money withheld from your pay?

You may need to use the worksheets on page 2 of Form W-4 to decide whether you should have any additional money withheld from your pay and how you should fill out line 6 of your "Employee's Withholding Allowance Certificate."

7. The last section of this part of the software helps you decide how to fill out line 3 of your "Employee's Withholding Allowance Certificate."

This line asks about your marital status, and it determines the rate at which your tax will be withheld. Read the information in this section to decide how you should fill out line 3 and to learn about "underwithholding" and "overwithholding."

8. Take the short quiz at the end of this part.

The quiz will help you remember what you learned by reviewing important questions. Remember, you can choose an answer by either typing the letter beside your answer or using the arrow keys to move the highlight to your answer. Then press Enter/Return.

9. When you are finished with the material in this part, return to the Main menu to study another part or quit the program.

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From Form W-4 to Form W-2

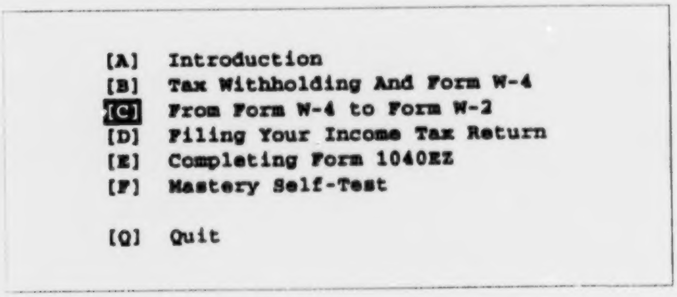
You fill out Form W-4 so that your employer knows how much to withhold from your pay for Federal income tax purposes. In January, following each year during which you had a job, each of your employers must send you a Form W-2. This form tells you exactly how much money that employer withheld from your pay during the previous year. It also tells you exactly how much money you earned, and it includes other information. Both Form W-4 and Form W-2 are important to you, and this part of the software explains why.

What you need to begin

You may find it helpful to have a Form W-2 to look at, but you can complete this part without one. The computer and this user's guide already contain examples of a Form W-2.

Learning about Form W-2

1. From the Main menu, use the arrow keys to highlight choice C, "From Form W-4 to Form W-2." Press Enter/Return to select it.



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[A]  Introduction
[B]  Tax Withholding And Form W-4
[C]  From Form W-4 to Form W-2
[D]  Filing Your Income Tax Return
[E]  Completing Form 1040EZ
[F]  Mastery Self-Test

[Q]  Quit
```

2. Read all the information in this part carefully, and answer each question.

   Remember, you can choose an answer by either pressing the letter beside the answer or using the arrow keys to move the highlight to your answer. Then press Enter/Return. Continue by following the instructions at the bottom of your screen.

3. Soon, you will need to key information that is correct for you onto a sample Form W-2.

   Key the information carefully. If you make a mistake, use the Left and Right Arrow keys and the Backspace/Delete key to correct it. Use the Up and Down Arrow keys to move from line to line. When you have finished keying the information, move the cursor to the last line and press Enter/Return.

   The computer screen shows you a sample Form W-2 and the most important information you will find on it. Here is what a real Form W-2 looks like.

4. Be sure to read all the information on the screen. When a sample Form W-2 is on the screen, there may be information both above the form and below it.

5. **Take the short quiz at the end of this part.**

The quiz will help you remember what you learned by reviewing important questions. Remember, you can choose an answer by either typing the letter beside your answer or using the arrow keys to move the highlight to your answer. Then press Enter/Return.

6. When you are finished with the material in this part, return to the Main menu to study another part or quit the program.

Filing Your Income Tax Return

Not everyone needs to file a Federal income tax return. If you do, you will file one of the three basic forms: Form 1040EZ, 1040A or 1040.

This part of the software will help you decide which tax form to use.

By analyzing your answers to a series of questions, the program will recommend the correct form for you.

What you need to begin

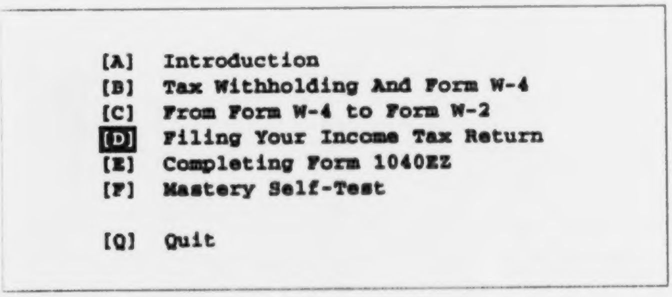
You will find this part of the program more useful if you know the following information about your own situation:

- your gross income for 1993
- how much of that income was "unearned," or came from interest, dividends or other nonwage sources

But you don't have to use this information to do the activities in this part. You can do this part several times with information you make up and answer the questions differently each time. With more practice, you will make better decisions about which tax form to use.

Learning to file your income tax return

1. From the Main menu, use the arrow keys to highlight choice D, "Filing Your Income Tax Return." Press Enter/Return to select it.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[E] Completing Form 1040EZ
[F] Mastery Self-Test
[Q] Quit

2. **If you are using an Apple IIe, IIc, or IIgs** computer, you may be instructed to remove the disk, turn it over and put it back in the disk drive. Make sure you close the drive door and then press Return.

3. Read all the information in this part carefully, and answer each question.

Remember, you can choose an answer by either pressing the letter beside the answer or using the arrow keys to move the highlight to your answer. Then press Enter/Return. Continue by following the instructions at the bottom of your screen.

4. When you have finished learning about one of the tax forms, choose "Learn more about the different tax forms" when the program asks you what you want to do. Or, go back to the Main menu and choose this part again. Answer the questions with different information to learn more about the tax forms.

5. When you are finished with the material in this part, return to the Main menu to study another part or quit the program.

Completing Form 1040EZ

You are ready to complete your tax return when you have decided which tax form to use and have gathered together all the information you will need to complete it. In this part of the software, you will practice completing the form you will likely use to file your tax return—Form 1040EZ. This part of the software has two sections:

- examples that you can use to practice filling out Form 1040EZ
- a section that will help you complete your own Form 1040EZ

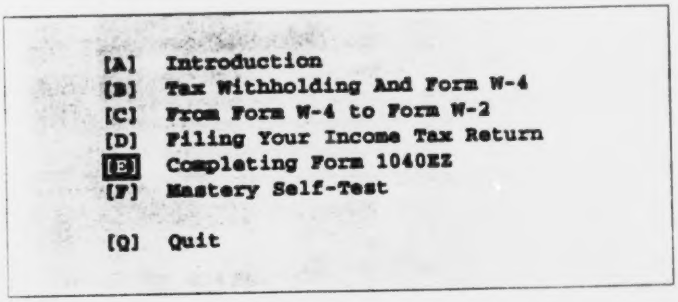
What you need to begin

- Form 1040EZ
- Form W-2
- Tax table
- pen or pencil and scratch paper

If you don't have your real Form(s) W-2 from your employer(s), don't worry. You can still practice completing the form by making up information for your Form W-2.

Learning to complete Form 1040EZ

1. From the Main menu, use the arrow keys to highlight choice E, "Completing Form 1040EZ." Press Enter/Return to select it.



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[A]  Introduction
[B]  Tax Withholding And Form W-4
[C]  From Form W-4 to Form W-2
[D]  Filing Your Income Tax Return
[E]  Completing Form 1040EZ
[F]  Mastery Self-Test

[Q]  Quit
```

2. Read the information in this part carefully.

You may want to work through the examples in this part of the software before you try to fill out your own Form 1040EZ. If you choose to complete the example for a married couple filing jointly, follow the instructions titled "Form 1040EZ for a married couple" below.

If you want to complete the example for a single person, follow the instructions titled "Form 1040EZ for a single person" on page 21 of this guide. If you want to complete your own Form 1040EZ, follow the instructions titled "Completing your Form 1040EZ" on page 22 of this guide.

Form 1040EZ for a married couple

1. Begin by reading about Daniel Raviv and Patricia Mickiewicz. Complete the identification lines on their Form 1040EZ and indicate their marital status on line 1.

   Remember to use the Forms W-2 that Daniel and Patricia received from their employers. You can switch from form to form by pressing the arrow keys.

2. You will also need to use the Forms W-2 to report Daniel and Patricia's total wage income on line 2 of Form 1040EZ.

   As you complete lines 3–6, the computer will check your math, but you should always double-check your work. Type the correct amounts at the flashing cursor. You can use the number keys at the top of your keyboard or the numeric keypad, if your keyboard has one. When you have typed the information correctly, press Enter/Return to continue.

3. When you are finished reporting Daniel and Patricia's income, figure their tax on lines 7 and 8. Use the tax table as instructed on line 8.

4. Carefully read about deciding whether Daniel and Patricia owe tax or will receive a refund. Complete line 9 or line 10.

5. When you have completed Form 1040EZ for Daniel and Patricia, remember that they must sign it, attach payment (if any) and the proper copy of each Form W-2 and mail the return by April 15, generally.

6. Great! You have completed this example. You can repeat the example, complete a Form 1040EZ for a single person or complete your own Form 1040EZ. If you want to practice more by completing a Form 1040EZ for a single person, follow the instructions below. If you want to complete your own Form 1040EZ, follow the instructions titled "Completing your Form 1040EZ" on page 22 of this guide.

Form 1040EZ for a single person

1. Begin by reading about Joe Day and completing the identification lines on his Form 1040EZ. Indicate Joe's marital status on line 1.

   Remember to use the Form W-2 that he received from his employer. You can switch from form to form by pressing the arrow keys.

2. You will also need to use Joe's Form W-2 to report his income on line 2 of his Form 1040EZ.

As you complete lines 3–6, the computer will check your math, but you should always double-check your work. Type the correct amounts at the flashing cursor. You can use the number keys at the top of your keyboard or the numeric keypad, if your keyboard has one. When you have typed the information correctly, press Enter/Return to continue.

3. When you are finished reporting Joe's income, figure Joe's tax on lines 7 and 8.

   Joe owes no tax this year, but everybody's tax return is different. When you complete your own, you may need to use the tax table as instructed on line 8.

4. Carefully read about finding amount of tax owed and tax refunds. Complete line 9 or line 10 for Joe.

5. When you have completed Form 1040EZ for Joe, remember that he must sign it, attach payment (if any) and the proper copy of each Form W-2 and mail the return by April 15, generally.

6. Good job! You have completed a Form 1040EZ for a single person. You can repeat this example, complete a Form 1040EZ for a married couple or complete your own Form 1040EZ. If you want to practice more by completing a Form 1040EZ for a married couple filing jointly, follow the instructions titled "Form 1040EZ for a married couple" on page 20 of this guide. If you want to complete your own Form 1040EZ, follow the instructions below.

Completing your Form 1040EZ

1. Once you have practiced by completing Joe Day's or Daniel and Patricia's Form 1040EZ, you are ready to complete your own Form 1040EZ.

2. You need to provide the software with information from your Form W-2.

   If you don't have a Form W-2, make up information. Type the information as the software asks for it. You can move from line to line using the Up and Down Arrow keys. If you make a mistake, use the Left and Right Arrow keys and the Backspace/Delete key to correct it.

   Type amounts for your "Wages, tips, other compensation" and "Federal income tax withheld" in dollars and cents, even if you type zero cents.

   For example, if your tax withheld was $892, type 892.00 when the program asks for that information. If your total income was $2,489, type 2489.00 when the program asks for that information.

3. When all the information is typed correctly, move to the last line and press Enter/Return.

4. Review the Form W-2 as it appears on screen. You can make corrections by pressing C and correcting information as in steps 2 and 3. When your Form W-2 is correct on screen, press the Space bar to continue.

5. Complete the identification information and lines 1–6 of Form 1040EZ as instructed on screen. These lines record information about your income.

Type in amounts exactly as they appear on your Form W-2. You can see your Form W-2 on screen by pressing an arrow key. The computer will check your math, but always double-check your work. Any mistake can delay your refund.

When you are sure the information you have typed on a line is correct, press Enter/Return to continue.

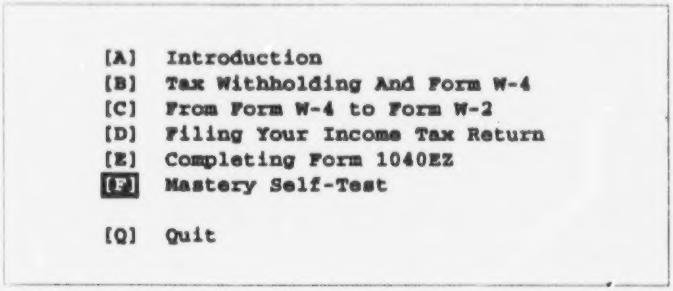
6. Complete lines 7–10 in the same way by recording Federal tax withheld, figuring your tax and recording your refund or amount owed.

7. Remember to sign your return, attach your payment (if any) and a copy of each Form W-2 and mail your return by April 15, generally.

8. Congratulations! You have successfully filed your own Form 1040EZ. Return to the Main menu to work with another part of the program, or do any of the examples in this part again for more practice. If you want to complete the example for a married couple filing jointly, follow the instructions titled "Form 1040EZ for a married couple" on page 20 of this guide. If you want to complete the example for a single person, follow the instructions titled "Form 1040EZ for a single person" on page 21 of this guide.

Mastery Self-Test

Like the other, shorter quizzes that appear at the end of some parts of this program, the Mastery Self-Test helps you learn more about the Federal tax system. You can choose to take a self-test at any time. From the Main menu, use the arrow keys to highlight choice F. Press Enter/Return to select it.



```
[A]  Introduction
[B]  Tax Withholding And Form W-4
[C]  From Form W-4 to Form W-2
[D]  Filing Your Income Tax Return
[E]  Completing Form 1040EZ
[F]  Mastery Self-Test

[Q]  Quit
```

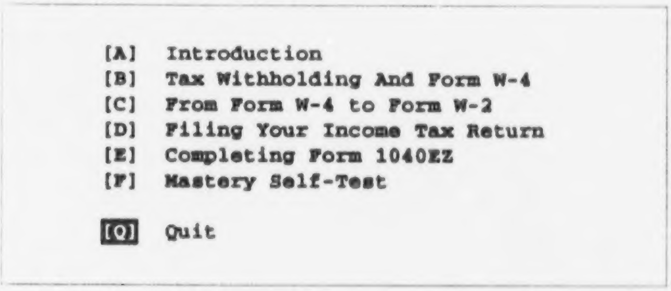
You may want to take a self-test to identify what you need to study or to review material you have already studied. The self-test questions cover all the concepts in the Understanding Taxes Software Supplement and offer hints if you need them.

This self-test is not an exam. You can repeat questions that you miss, and you can take a self-test at any time. The score you receive at the end of a set of questions is not a grade but a guideline you can use to help you study.

You can choose an answer to a self-test question by either pressing the letter beside your answer or using the arrow keys to highlight your answer. Then press Enter/Return. Continue through the self-test by following the instructions at the bottom of your screen.

Quit

To quit the program from the Main menu, use the arrow keys to highlight choice Q, "Quit." Then press Enter/Return.



```
[A]  Introduction
[B]  Tax Withholding And Form W-4
[C]  From Form W-4 to Form W-2
[D]  Filing Your Income Tax Return
[E]  Completing Form 1040EZ
[F]  Mastery Self-Test

[Q]  Quit
```

You can also quit from any other place in the program by pressing Escape. Then choose "Quit the Program" from the menu.

Finally, remove the disk from the disk drive and turn off the computer.

Understanding Taxes Software
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